JOURNAL
OF THE
AMERICAN BANKERS ASSOCIATION

Gold and Silver Hit by High Cost

By REUBEN A. LEWIS, Jr.

Gold Mining Industry Suffers from the Effects of Inflation. Gold the One Commodity for Which the Government Fixes a Price Has Stood at $20.67 per Ounce While the Cost of Its Production Has Increased Since 1915. Readjustment in Price of Silver Is Coming

THE gold and silver question is again before the country. This time it is not accompanied by the thrum of political tom-toms with the cry of free silver, a 16 to 1 ratio or the demand for bimetalism, although a Congressional committee has formally launched an inquiry into the problems confronting the fine metals mining industry. The investigation was ordered by the Senate during the waning hours of the last session because it was recognized that the pulse of gold was beating weakly while there was every reason to believe that silver now artificially stimulated by purchases at $1 an ounce, would suffer a collapse when the Treasury ended its buying and the producers had to offer their output on the vastly lower international market.

The Senate Committee

What can be done to aid this twin industry?

The Senate committee, headed by Tasker L. Oddie, of Nevada, and composed of Frank R. Gooding, of Idaho, Thomas Sterling, of South Dakota, Thomas J. Walsh of Montana, and Key Pittman, of Nevada, hopes to submit its answer to this question when Congress reconvenes next December. How broad the scope of the inquiry will be may be indicated by the fact that the Senate's resolution creating the commission directed it to study and report by the first of next year, upon:

Lines of Study

1. The causes of the continuing decrease in the production of gold and silver.
2. The causes of the depressed condition of the gold and silver mining industry in the United States.
3. The production, reduction, refining, transportation, marketing, sale, and uses of gold and silver in the United States and elsewhere.
4. The effect of the decreased production of gold and silver upon commerce, industry, exchange and prices.

"We propose to do for mining what the Joint Congressional Agricultural Commission did for agriculture," Senator Oddie commented, in explaining that a comprehensive investigation would be made to get all of the facts that might serve as the basis for legislation.

Paradoxically, the predicament of gold is the result of inflation. Gold mining no longer pays. As the one commodity for which the Government fixes a price, gold has stood at $20.67 per ounce while its cost of production has almost steadily mounted since 1915. Confronted by this inflexible price that admits of no compensation for the swelling expenditures, a majority of the producers of gold have bowed in recognition of this remarkable situation and have shut down their mines. The mines that added $101,000,000 to the wealth of the world in 1915 had barely more than half this output in 1922, when the production shrunk to $49,000,000.

Bounty of Gold?

Will the public, which the gold producers claim profit greatly through the adoption of gold as the monetary unit, be asked to pay for the inequities arising from Government price fixation by granting a bounty for the newly produced metal? Can means be applied to limit inflation and thereby prevent the higher cost of production? It appears that the solution for the problem of the gold mining industry lies along these two lines, for, beyond that, the commission sees little hope of bringing about a favorable change in conditions.

Silver is in a vastly different position and soon to undergo what

Silver Mining Camp, Nevada

is expected to be the most drastic readjustment in price, with the last of the purchases under the Pittman Act.

This law, it will be recalled, was passed in 1918 to help Great Britain stem a monetary crisis in India, where silver was urgently required to redeem paper rupees that has been issued, and to meet trade balances. India was in such a state of unrest that her allegiance to England was generally threatened. Had she not found silver to meet the demand of the Indians, grave consequences were foreseen. The United States had the only large available stock of silver and the Indian episode led to the melting down of more than 300,000,000 silver dollars into 198,000,000 ounces and their sale to the British through the enactment of the Pittman Act, which provided that the money received from England should be reinvested in silver produced in the United States at $1 an ounce to rebuild the reserve. The Act was in this way a tri-partite arrangement because the producers were called into conference before the price of $1 an ounce was fixed by Congress.

The Director of the Mint has estimated that the last purchases under the act will be made about July 1. Inasmuch as the open market price ranges around 62 cents, it is apparent that there will be a tremendous drop in the price at which the silver mines may market their production and it is equally as plain that throwing 50,000,000 ounces, hitherto absorbed by the Treasury, on the market will tend to enlarge the supply and further depress prices. The serious aspect of the situation is reflected in the statements of mine operators that silver cannot be produced for less than 80 cents an ounce.

The preliminary investigations made by the Senate commission have indicated to it that relief for the silver industry lies along two lines. Either a higher price must be obtained through enlarging the use of silver in the monetary systems and through checking the widespreading movement of debasing subsidiary coinage, or the producers, through a change in their marketing methods, must create a situation where the price can be raised through a more orderly selling plan.

Price Fixed Daily

It is widely admitted that the price of silver is fixed daily in London by four brokers, who act without consulting the producers. This is said to be due to the fact that London, as the principal financial center of the world, acts as a clearing house through which the balance of trade is adjusted. Inasmuch as the demand governing the price of silver is that which arises from its use as a money metal, this is not affected so much by the volume of current production as by the waves of prosperity or adversity that sweep over the people in all parts of the world. "Inasmuch as the volume of trade between China, India and the balance of the Orient on the one hand and the other British possessions on the other greatly exceeds their respective trade balances with the rest of the world, and, moreover, as this trade is financed and the balances adjusted between these essentially silver using countries and those whose currency is based upon the gold standard through the medium of the great Anglo-Eastern banks with headquarters in London, it is apparent why that center has such a predominating influence on the situation," C. F. Kelly, of the Anaconda Cooper Mining Company, told the commission. "In ordinary times, since the repeal of the Sherman law and prior to the disturbance of the late war, every ounce of silver produced in the world was sold on the basis of a London quotation, as was also the purchase of every ton of silver ore by custom smelters throughout the United States."

Co-operative Marketing

At this time, the hope of obtaining higher prices through the co-operative efforts of the producers has led to the announcement by Senator Oddie that he will call a meeting of the silver producers of North and South America at Reno during the summer to see if the co-operative marketing plan, which promises to be the salvation of the farmers, cannot be made the medium of saving the mining industry.

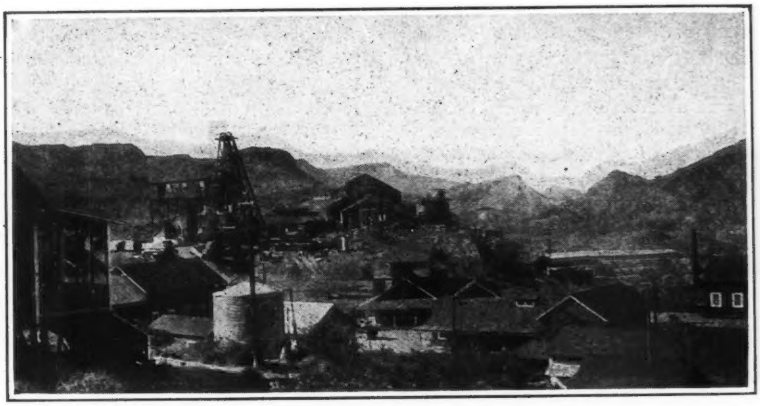
"The two Americas produce approximately 90 per cent. of the world's silver, while the principal consumers are in Asia and Europe," Senator Oddie remarked. "Under present marketing conditions, the silver producers of the two Americas are unorganized and are, therefore, forced to sell their bullion when it is produced, thus competing with each other in the market. The consumer, on the other hand, through the London brokers and under the authority of the Bank of England, taking advantage of the situation, fix the price. Marketing associations to dispose of agricultural products have been organized in this country and are operating very successfully to protect the interests of the producers. The experience which had been gained in the field of marketing agricultural

products indicates that the best results are obtained when a single product is handled by a single organization, thus enabling that organization to concentrate its attention upon the world-wide market conditions. Hence a silver export association, through which the entire silver production of the two Americas could be marketed, would secure the best results."

Silver Export Corporation

It is contended that the silver producers might form an export corporation under the Webb-Pomerene Act, in such a manner as the copper interests acted, despite the advice of some in the industry that the capital requirements of such a corporation would make it impracticable. Those who take a dark view of the venture, however, are outnumbered and it seems to be definitely foreshadowed that a co-operative marketing movement will crystalize out of the studies that are to be made.

With the end of the war, there came a striking change in the use of silver in subsidiary coinage. There was an absolute stoppage of the coinage by the so-called bankrupt nations, which readily substituted the prolific printing presses, while others followed the example of Great Britain and debased their currencies. This movement spread like wildfire and, when the paper marks, rubles and kronen flooded the countries, the money of intrinsic value naturally disappeared from circulation. When it is considered that normally half of the world's production of silver goes into money and the other half into the arts, the effect of this movement upon the silver outlook may be appreciated. All of the nations of Europe which were actually engaged in the war stopped the coinage of silver. Sweden, Norway, and Denmark abolished silver coin for all fractions of the krone, substituting an alloy of nickel and copper in lieu of the fine metal. The act of England, which since the days of Queen Elizabeth had coined a vast amount of subsidiary silver that ran as high as 20,000,000 ounces annually, in debasing her coins from 925 to 500 fine, was speedily and even unexpectedly followed by other nations.



Mill and Failings Dump, Arizona Gold Mine

Peru, a silver producing country, debased her currency. Argentina followed suit. Even Mexico, ranking first in silver output, temporarily stopped the coinage of silver and witnessed a debate on debasement. The movement in the direction of token money has deeply disturbed the silver interests and the question that confronts the commission is to restore the world to normalcy in this respect, if it can.

Foreign Currencies

"The commission is now investigating what has taken place in this regard," said Senator Oddie "with a view of rendering every assistance in pointing out the advantages which will occur in restoring normality to silver currencies throughout the world.

"Since the armistice it has become very apparent that the entire prosperity of our country is more gravely dependent upon our export trade than has been previously supposed. European currencies have become greatly depreciated in value as their paper currencies have expanded, and their gold and silver reserves have diminished, thus decreasing their power to buy the products of the United States. It is obvious that this purchasing power in our market can be increased largely through the betterment of foreign currencies, which will be met if they decrease the volume of their paper currencies and increase their gold and silver reserves, thus restoring their pre-war parity.

"The ability of Europe to buy our products will enable her to build a solid and sure foundation for permanently increasing her output in every line. As a creditor nation, we should exert our influence in urging upon the countries of Europe the importance of improving their currencies. In no way can we better insure the foreign consumption of our own products than by making Europe see the great advantages which will inevitably follow a successful effort on her part to improve the purchasing power of her depreciated currencies."

Thus it is hoped that the nations now afflicted by the paper currencies will include in their formula for recuperation the use of silver in the fractional coins, at least. The case of Mexico has been cited as an example that the European nations may well follow. During the Mexican revolution in 1912, Villa, Carranza and other chiefs issued paper money until Mexico was alive with their currencies. When the natives refused to take any more of this fiat money, Carranza found it was advisable to put out hard money before he could win the favor of anyone. Not having enough gold, the Mexican leader resorted to silver and eventually Mexico returned to the gold basis. It is known that some of the silver producers think Russia,

May Come to Silver

Germany and other European countries, whose currencies have depreciated so greatly, will come to silver when they try to reestablish a sound currency. The suggestion has been made that the co-operation of Great Britain should be sought by urging

the British government to cease pushing the paper rupee in India and allowing silver to circulate in India as freely as ever. The possibility of Great Britain restoring the fineness of her subsidiary coinage is looked upon with some hope. However, Congress refused to sanction the creation of a joint commission that would be empowered to hold conversations with foreign nations looking to the enlarged use of silver in their currencies and it would be totally unexpected if the Senate commission did more than report as to the possibilities that rested in this direction.

During the hearings that preceded the creation of the Senate commission, however, the hope of European countries rehabilitating their currencies by a considerable use of silver was dimmed somewhat by the testimony of Professor Jeremiah W. Jenks, of New York University, who was a member of the international commission invited by the German Government to work out a plan for the stabilization of the currency.

"In all of these countries it is expected that their paper currencies will first be given a fixed value in terms of gold and such value will be maintained within very narrow limits of fluctuation, probably not more than 1 or 2 per cent.," he said. "After their present paper currencies have been thus stabilized a sufficient length of time so that the people have become again accustomed to measuring the values of their products in the terms of gold, the Governments will proceed to establish a new monetary unit." As regards minor coins, Professor Jenks said the countries "probably would prefer the cheapest available metal which would do the work effectively, would maintain its appearance and have the requisite durability." So far as the experience of the world seems to have justified the belief that silver is the best metal adapted for that purpose, it will be employed," he said.

While it appears that the investigations will concentrate on these phases, the inquiry will follow the broadest scope. Here are the studies which the commission had tentatively determined to make in May:

Ascertain changes which have occurred in gold and silver currency and gold and silver reserves of all countries.

Determine changes in the ratios of gold and silver reserves to paper currencies in all countries since 1914.

Ascertain the monetary laws which have been enacted since 1914 and their effect on the demand for gold and silver for currency and reserve purposes.

Analyze exchange rates to determine the effect of inflation and diminishing gold and silver reserves on the exchange values of foreign countries.

Means of improving foreign currencies by increasing gold and silver reserves.

Ascertain effect of fluctuating and depreciated foreign currencies upon our export trade.

Ascertain the relation of the price of silver to the price of wheat and cotton and all principal products exported to Oriental countries.

Ascertain the direct or indirect benefits to England arising from her control of the price of silver.

Ascertain the cost, availability, and time limit of private credit to silver producers against bullion collateral.

Ascertain the relation of transportation cost to costs of production, smelting cost, and sale price.

Investigate other means of remedying gold and silver problems, such as the possibility of limiting inflation, and thereby preventing the higher cost of production.

What are the possibilities of deflation, with attendant reduction of production costs?

Determine the present cost of gold and silver production as compared with 1915.

Determine the condition of gold and silver mining industry, the extent and volume of ore reserves here and abroad, and the possibilities of expanding reserves either by development or by new discoveries.

Draft proper legislation for incorporation in report and recommendations to the Senate.

The technical work of the investigation is to be directed by H. N. Lawrie, a mining engineer and economist, who was appointed to the position of assistant to the commission on May 8. Formerly managing director of the American Gold and Mining Institute, Mr. Lawrie has had wide experience.

AMSTERDAM STOCK EXCHANGE
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"For Sound Money"

Senator Oddie, chosen to succeed the late Senator Nicholson, of Colorado, as chairman of the commission, has a practical knowledge of the problems of gold and silver mining for the Senator was at one time a partner of the famous Jim Butler, who discovered the great gold and silver camp at Tonopah in 1899 and, for five years, was manager of the original properties.

Fear that the group of western Senators in their zeal to aid the cause of silver might launch an unsound money wave has been allayed at the outset by the chairman's reassuring statements.

"I am for sound money," Senator Oddie said, with emphasis. "There is no thought of bimetalism or departing from the gold standard. We desire to help the great mining industry, but not through the creation of an unsound currency."

How Re-Discount Rates Are Made

By H. PARKER WILLIS

Formerly Secretary of the Federal Reserve Board

Provisions of the Act Relate Only to the Mechanism of the Process—Federal Reserve Banks Recommend the Rates but Board May Veto. Many Theories Largely in Conflict with One Another. Bank of England Plan. Changes Preceded by Detailed Study.

WITHIN the past few weeks, there has been an urgent demand from bankers in many parts of the country for a plain statement from the Federal Reserve System as to how discount rates are made. They want to know the principles which have guided the Board in the fixing of rates and which have controlled the banks in originating them. No such statement has even been made, for while both the Board and the banks have from time to time issued many statements on the question of discount rates, and have often defended either "high" or "low" rates, they have never yet given a description of the methods employed in formulating rates or the considerations which are regarded as properly leading to a change when once rates have been established. Probably the reason no such statement has been made is that none can be.

Provisions of the Law

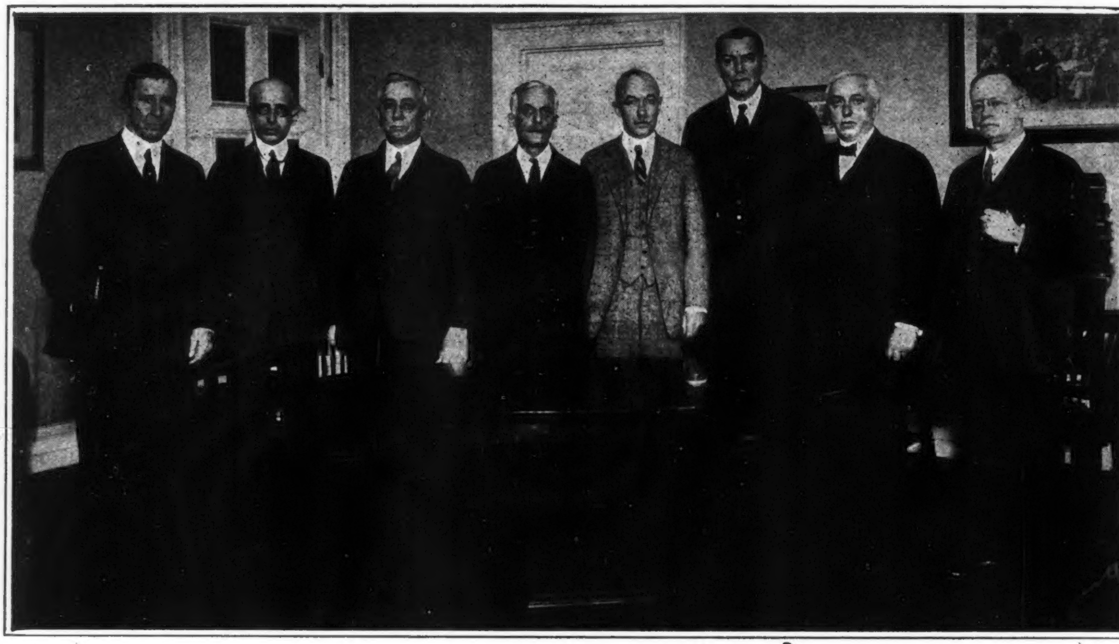
The provisions of the Federal Reserve Act on this subject are very clear, but they relate only to the mechanism of the discount process, They provide that the directorates of Federal Reserve Banks shall originate or initiate the rates, reporting the results of their findings to the Reserve Board with a recommendation that such rates be made effective. The Board then has the power to decline to put into effect such rates, or in other words may veto the recommendations of the banks. It is clear that this is an extremely important authority, inasmuch as it would follow that in the event of a veto, the banks would either be left without rates and so perhaps unable to do business, or else would have to continue doing business at the former rates. The Act is not clear as to which of these conditions would follow a veto on the part of the Federal Reserve Board, but in practice the banks when their recommendations have been refused have simply continued discounting on the former basis until such time as new rates could be agreed upon. Very early in the Board's history, it adopted a rule requiring reserve banks to report rate recommendations weekly, no matter whether they wanted a change or not. The effect of this policy was to give the Board every week a chance to decline to confirm or continue the existing rates, in which case of course there was a possibility that it might have to direct a recalcitrant reserve bank to cease discounting entirely. Thus by an indirect process the Board really assumed a power in the fixing of rates very much greater than the law had originally contemplated. It is true that this power is usually held in reserve; and that the weekly recommendation as to discount rates sometimes drops into abeyance or may amount to nothing for long periods; but, at critical times, the plan just outlined gives the Board substantial control over the whole situation.

How Rates Are Established

In practice, when the time comes for consideration of a change in discount rates, the decision is reached by a more or less informal method in the first place. Usually, the subject is discussed at meetings of the governors of reserve banks, or of the Advisory Council, or both, and a general understanding is arrived at as to the necessity of a change, with tentative agreement as to what it should be. Whether this process has first been carried through or not, the Board may at any time take the matter up with a given bank, whose rates it desires to change or may suggest to all of them the desirability of changing their rates. In many cases, such a suggestion is immediately acted upon by the local boards of directors, with the result that the Board ultimately receives a recommendation which has really originated with itself. In other cases, the board of a given bank decides on changes of rates and then takes them up informally with the Federal Reserve Board. The latter body having agreed informally to the recommendation, it is then formally made and ratified. Meanwhile, the Board may have called to the attention of other banks the fact that such a change is in prospect, and they may have harmonized their rates with those of the bank making the first change. Occasionally, the Board may wait until the new rates are in effect at the bank which originated them, or perhaps at a small group of Reserve Banks which have simultaneously put them into effect, and may then notify other Reserve Banks, leaving them to make such changes as they think fit, or perhaps urging them to harmonize their own rates one with another, or to adapt them to the new schedule accepted by the bank or banks which have taken the initiative as just described. In this way a fairly harmonious and consistent rate structure is maintained.

Theory of Rates

All this, however, says nothing as to the considerations which have moved the Board or the banks to initiate or consider changes of rates in the first place. Question has often been asked whether the Reserve System has any definite theory of



New Federal Reserve Board Copyright by Harris and Ewing.

The first picture to be made of the Federal Reserve Board as now constituted with D. R. Crissinger as Governor and the two newly appointed members, George R. James of Memphis, Tenn., and Edward H. Cunningham of Osage, Iowa. Left to right, the members are: Adolph C. Miller; Harry M. Dawes, Comptroller of the Currency; D. R. Crissinger, Governor; Secretary of the Treasury Mellon; Edmund Platt; George R. James; Edward H. Cunnigham and Charles S. Hamlin.

rates. The answer to be made is that it has many such theories, and that they are largely in conflict with one another. Indeed there is scarcely a theory of central bank rate-making which cannot be found in the writings or publications of the Board, or in the statements of the officers of Reserve Banks. For a long time, the theory which seemed to be dominant was that the reserve bank rate should, as in England, "lead the market"—that is to say it should be higher than the rate prevailing in the market at the time. Of course, the trouble with this was that the Bank of England has two rates, its "private" and its "public" rate, while the Reserve System has only one which is required to be uniform to all persons. That in itself naturally makes a great difference with respect to the general method of rate making. Moreover, the Bank of England deals with firms and individuals, whereas the Reserve Bank deals only with banks (and with the Government). Again the question what the "market" rate from which the reserve rate is to be measured shall be considered is not an easy one, inasmuch as we have no established discount market in the United States such as there is in England. The local rate on "commercial paper" perhaps comes closest to the market rate in England, although some have believed that the rate prevailing for acceptances is a better comparison. But the latter of course is largely artificial in the United States, due to the difficult character of the period of development through which the acceptance system has had to pass.

Theory vs. Practice

Whatever may be thought of this theory in the Reserve System, the fact remains that its policy has never squared with any theory or been consistent with itself. Most of the time since the organization of the System, the reserve bank rate has been well below the market rate on commercial paper, and considerably below the rate charged by member banks for "line-of-credit" loans to customers. This has meant that the Reserve System practically offered an inducement to the customer bank to make money by rediscounting with it. Of course, this inducement was not effective until the customer bank was "loaned up." Such a bank would rather go on lending out of its own resources than to rediscount at any price. But when it was well "loaned up," the obvious dictate of profit was to discount as much paper as it could, since it was able to pare off a commission upon every item of paper so discounted. Of course this was a most injurious factor in the situation at critical moments of inflation, and at such times has occasionally led to a shifting of Reserve Bank rates in order to discourage further discounting. This is what happened during 1920, the advances in rates which were then made being intended to protect the resources of the banks against exploitation by members who were making what money they could by "feeding out" to customers the credit granted them, at a figure higher than what they had to pay the Reserve Banks. Working on the basis of experience, then, we may say that while probably the majority of Reserve Bank-

ers have been disposed in the abstract to accept the Bank of England's plan of "leading the market," they have been extremely slack in applying such a theory in practice, and have usually raised rates only when it was necessary actually to protect the Reserve Bank itself from a condition which might drive its reserve ratio below the legal level.

Getting Ready for Rate Changes

In actual practice, rate changes are always preceded by detailed studies of conditions. These studies have in many cases borne upon the question of volume of production, as well as upon that of volume of member bank loans. The notion in the minds of some officers of Reserve Banks, as well as of members of the Board, has apparently been that it was desirable to expand the amount of "credit" in the community, as long as such expansion resulted in a corresponding or greater expansion of the output of consumable commodities. When it exceeded or outran such output, according to them, the result of further increase in credit was simply to advance prices without enlarging production, and hence the time had come to raise discount rates. With this in mind, studies have usually been made of the volume of commodities in warehouse, the purpose being to form an opinion as to whether speculation was rampant or was relying upon bank credit for the purpose of "carrying" commodities. The thought here has been that, if commodities were being carried for speculative purposes, credit should be refused or curtailed. In this matter of course, the difficulty has lain in the fact that farming interests have had a different idea as to how long the process of "orderly marketing" should be, so that there has been constant controversy as to whether credit granted for the purpose of carrying products was in fact "speculative" or not. Nevertheless a good deal of attention has always been paid to the question of warehousing and "carry-over." Great difference of opinion has existed with respect to the relation of prices to reserve credit, and two parties have usually existed within the Federal Reserve Board and the banks, one maintaining that reserve bank credit tended to advance prices or to reduce them, according as it expanded or contracted, while the other has held that there was no relation between prices and reserve credits. Thus the scientific price studies made by and for the Board have in fact usually had very little direct effect upon its policies.

The Price Issue

It is this same price question which has perhaps been more troublesome to the Board than anything else in working out a discount policy. The general rank and file of economists are convinced that the volume of bank credit in existence has a very important effect upon prices, although some of them say that this effect is entirely of the short term variety, and does not alter the underlying current or trend of values. All, however, seem to admit that there is an intimate relationship of some kind between credit volume and price levels. This has always caused uneasiness to those elements in the Reserve System who were inclined to the belief that there was no such relationship or at least who liked to think so. At all events the price proposition became practically serious when the farm bloc and the agricultural element generally formed the opinion that by having plenty of farm credit with which "to carry" farm products they could succeed in sustaining values at levels a good deal higher than otherwise. The Board or a large section of it then became definitely convinced that to regard itself as vested with the power of influencing or affecting prices was to lay up a great deal of future trouble. From that time forward, the discussion of prices has been pretty largely ruled out of its publications, although until then there had been ample opportunity for the discussion of price theories and their relation to discount rates. In various reports and elsewhere, can be found the thought that when prices are high and rising, discount rates should be advanced; while when they are low or falling, discount rates should be lowered.

Materials for Theory of Rates

About the best that can be said of the work of the Federal Reserve System thus far is that it affords materials for a theory of rates and rate-making which may sometime assume a coherent shape, or be put into a form which will admit of adherence to some fixed principle. In a general way, however, the following factors or conditions have had and still have a certain amount of influence in bringing about advances of rates on the part of the Federal Reserve System:

1. High and rising prices.
2. Overstocking or accumulation of goods without corresponding sale.
3. Expansion of member bank credits at a rapid rate, particularly when such expansion resulted in the reflection of such increase of demand for credit into Reserve Banks.
4. Expansion of Reserve Bank lendings with the result that in some cases the ratio approached the legal limit.
5. Obvious tendency to use credit for purely speculative purposes or for hoarding.

On the other hand, conditions the opposite of these have tended to reduce rates or to keep them low, as the case might be. Of the factors enumerated, those which have had the most direct influence in bringing about a revision of policy have been numbers 4 and 5—the expansion of Reserve Bank lendings and the tendency to use credit for speculative purposes. Numbers 1, 2 and 3 have had a contributory influence which has operated either way according as they were viewed from a positive or negative standpoint.

Criticism of Theory

The main criticism upon the rate theories of the Reserve System is that they do not really exist as recognized actualities or are so nebulous and contradictory that they have no genuine position or status. In fact they have represented only tendencies or ideas, considerations of expediency coming in to determine whether one factor or another shall be given an important influence. Perhaps the most serious criticism

upon the theoretical aspect of the Board's rate work is found in the fact that so much inconsistency has always been shown in it, officials often differing among themselves even at a public hearing with regard to fundamentals; or perhaps in the same report with respect to the question what factors should or did cause an advance of rates or a reduction as the case might be. The nominal attempt to adopt the British theory of leading the market has been entirely unsuccessful, partly because of differences in conditions between England and the United States which were never fully realized by those in charge of the system; and partly because of a lack of absolute courage to apply an abstract theory in the face of hostile criticism or effort to control the policies of the Board in the interest of such administration that happened to be in office. Altogether, the outside banker who wishes to form a conclusion as to the probabilities of an advance or decline in rediscount rates in the present or future can only review the various influential or contributory factors already enumerated in this survey and then reach a conclusion based on his general information as to what factors political conditions will allow to operate or will prevent from operating.

The New Spirit in Business

By JOHN H. PUELICHER

President American Bankers Association

IT is an unnecessarily fatalistic attitude toward business to assume that a period of prosperity must inevitably give way to severe depression. We are in the midst of sound prosperity. We have in our own hands the means to maintain a strong prosperous course of business activity indefinitely. To make prosperity permanent is the paramount duty of American bankers, business men and working men. They can do it with better economic team-work. They cannot do it otherwise.

Better self-control and better team-work in business will so modify the human factor among the controlling forces that produce business ups and downs that the extremes of over-done booms and disheartening depressions will be avoided.

The Federal Reserve System has gone far toward saving business from the effects of recklessness on one hand, and panicky fears on the other, in the use of the nation's credit resources that have characterized business in the past. It has brought better team-work to banking so that it can render better service to business.

But the Federal Reserve System is not enough. We need still greater team-work in all aspects of the inter-relations of men in business. We must have team-work that recognizes the fact that business is service. The old days of "business is business" are passed. Only that business will endure which renders a real public service. Only that business is sound which administers to real human needs, comforts and progress. The most conspicuous part of a reaction is the crashing to earth of business based on selfish speculation, on exploitation of public emergencies, on over-trading and on stimulation of abnormal activity in many lines beyond the point of rendering real service.

Again, we must have team-work that recognizes that everyone who participates in the production, preparation and transportation of goods is entitled to a fair return for his effort, and no more.

Team-work demands that each recognize the value of the others' shares. This means that labor be paid a fair wage, that capital be allowed to earn a fair profit. When any element attempts to take advantage of conditions to get more than its share it tends to throw the price structure out of true and weakens the whole business fabric.

Again, team-work demands recognition of the public sanctity of sound, of honest, money. It is a crime to short measure a purchaser of goods by putting a false base in a standard bushel basket so that he will get less than he pays for. It would be equally a crime to replace the sound gold base of our money with something of a less standard value in the interest of one class as against another, so that those who must accept money for their goods and services must accept less real value than they are entitled to receive. That is what has been done in Russia and Germany. That is what some seek to do in the United States of America.

I do not say that we will free ourselves from the grip of the business cycle. But I do say that it is our own fault if we do not bring about better coördination of effort. We can do it by means of real team-work and reciprocal service that will avoid the extremes of artificial business booms and their resultant deep reactions. I know of no finer service for business men and working men to render the nation than to maintain this splendid prosperity of 1923 indefinitely as it undoubtedly lies in their hands to do to-day by means of real team-work.

Short Measure Money

Team-work demands recognition of the public sanctity of sound, of honest, money. It is a crime to short measure a purchaser of goods by putting a false base in a standard bushel basket so that he will get less than he pays for. It would be equally a crime to replace the sound gold base of our money with something of a less standard value in the interest of one class as against another, so that those who must accept money for their goods and services must accept less real value than they are entitled to receive. That is what has been done in Russia and Germany. That is what some seek to do in the United States of America.

Lumber Financing in Washington

By HOWARD H. PRESTON and GEORGE W. McCUSH

The Predominating Industry of the State. When It Prospers Everybody Prospers. Ownership of Forests Is Concentrated. Bank Methods Peculiar to the Industry. Five Branches of the Business. Distribution, Including a Great Export Business.

WASHINGTON leads all the states in lumber production. She has held this position, the exception of a single year, since 1905 when she attained first rank. Twenty-five years previous to that time she was outranked by twenty-nine other states. It is to the west, therefore, that the nation has turned during the past two decades for the supply of lumber. Practically one-half of the remaining saw timber of the United States rests upon the slopes of the Pacific Coast, Oregon leading with 440,000,000,000 feet while Washington has about 300,000,000,000. Conservatively estimated the standing timber at Oregon and Washington is worth $1,000,000,000 and when converted into lumber will be worth about $15,000,000,000.

Washington produced 4,603,123,000 feet of lumber in 1918 and her present annual cut is conservatively estimated to be 5,000,000,000 feet. She ships lumber to practically every section of the United States and to scores of foreign nations. In 1922 Washington shipped to Australia, Central America, China, Cuba, India, Japan, Mexico, New Zealand, South America, South Sea Islands, the United Kingdom, and the Continent of Europe a total of 579,148,247 feet.

The lumber business is the predominating industry of the state and when it prospers everybody is prosperous. Its financial problems occupy a large place in the mind of the bankers. In certain respects unique methods have been developed.

The Lumber Industry

The lumber industry may be said to comprise five fairly distinct branches. These are: ownership of standing timber, logging, manufacturing logs into lumber, wholesale lumber distribution, and retail lumber distribution. In many instances these steps in the process are not carried on by separate companies but are completely integrated, the same industrial unit which owns the standing timber carrying through every process to the delivery of the lumber to the ultimate consumer. There may also be a combination of ownership of stumpage (standing timber) with logging and milling. Again mill owners frequently sell direct to the retail trade a part or all of their product. Nevertheless there are a sufficient number of separate units carrying on only one phase of the operation to warrant recognition of the above divisions of the industry when discussing its financial problems.

Douglas Fir

The Forest Problem

The greatest problems of the lumber industry are forest problems. The west is carrying a large forest surplus of 1,750 billion feet which is the great reservoir of timber to which the nation must look for its future lumber supply. A recent estimate places the total timber in Washington at 268 billion feet. Of this, 149 billion is privately owned, 11 billion is on Indian lands, 78 billion is controlled by the U. S. Forest Service, and 30 billion by the State.

Concentration of ownership is very marked. A decade ago the Bureau of Corporations reported that about one-third of the private timber in the northwest was in the hands of eight companies. There is no money owed against much of this timber. But even where this is the case the burden of investment is heavy. Under private ownership of timber the essential function of holding this stock of raw material must be compensated for in some manner. Carrying charges include interest upon the purchase price, taxes paid, costs of fire protection and interest upon the money expended for these purposes. The capitalization of the property doubles every eight to ten years if interest is compounded at 6 per cent. In the past large profits have been made from speculation in stumpage but during recent years it has become increasingly apparent that future returns must be realized from efficient lumber manufacturing. Timber buying is now chiefly restricted to tracts sold to loggers or manufacturers.

Timber Bonds

Early borrowings were largely in the form of short term notes but in order to provide capital for building logging railroads and sawmills, bond issues have sometimes been resorted to by owners of timber tracts. During the rapid advance in timber values which culminated about 1907, bonds were issued upon property that in some cases was badly overcapitalized. The result was that timber bonds got into bad repute with investors and for a number of years were not marketable. In recent years sound principles underlying this type of security have been developed and they are regaining public favor. But even today many of the conservative bond houses will not deal in timber bonds of any kind.

Of the factors which experience has demonstrated require special consideration in issuing timber bonds the first is the character of the security. Bonds should be issued only as a first mortgage upon the land, timber and manufacturing plants. The timber is the primary security but no bonds will be handled now on standing timber unless a good operating plant is included. Normally a saw-mill is part of the manufacturing equipment but bonds are outstanding where the operating company simply logs the timber and sells in the open log markets of Puget Sound, Gray's Harbor or the lower Columbia River region.

Security Ratio

The security ratio is a second important consideration. Timber bonds must show a high value ratio in order to satisfy the critical buyer. No reputable bond house will consider an issue that does not show a conservative value ratio of 2 to 1. In fact, minimum ratios of from 3 to 1 up to 5 to 1 are demanded in practice. Experience with timber valuation and thorough knowledge of local operators are essential to success in handling timber issues.

The necessity for a large value ratio lies in the general instability of lumber prices and the risk of loss to standing timber from fire or wind. Fire protection has reduced the losses in recent years to a comparatively small figure. But the realty of the fire hazard is attested by the unwillingness of insurance companies to assume the risk. If the timber is accessible, a considerable part of the lumber may be saved by cutting it within a year or two after the fire. It is, therefore, important to know what opportunities there are for logging in case of necessity.

The danger of loss by destructive wind was brought home to the people of western Washington by a wind storm which swept across the Olympic Peninsula in the spring of 1921 and destroyed millions of feet of lumber.

Provisions for Cutting

The provisions upon which timber may be released for cutting constitutes the third important factor to be considered in issuing timber bonds. Clearly, in most cases, the company must be allowed to cut the timber. At the same time the security behind the bond must not be impaired. To accomplish this two-fold purpose the Mortgage Deed of Trust provides usually for the release of certain portions of the property upon payment of a specified amount into a sinking fund for each 1,000 feet cut. A recent issue, which is on a basis of less than $1 per M feet of timber, and further secured by the plant and other property, provides that the company must deposit with the trustee $1.75 per M feet of timber cut. All of this is to be used in the purchase of outstanding bonds. Recent issues contain a provision making the bonds callable in whole, or in part by lot, on any interest date. In this way money accumulated in the sinking fund can be applied toward the calling of bonds unless it is possible to purchase them in the open market at less than the call price. Formerly bond issues called for definite payments and instances are at hand of companies which have been compelled by their serial payment bond issue to continue operations when other mills had closed down. This amounted to a forced sale of timber at a loss. The more elastic sinking fund provisions of recent issues are expected to relieve the company of this necessity and at the same time afford full protection to the investor.

Timber bonds recently issued have sold on a basis to yield the purchaser approximately 7 per cent. If called for payment the premium, which ranges from 2½ to 5 per cent. above par, will increase the investor's return.

Financing of Logging Companies

While the logging and milling of timber are classified as separate phases of the lumber industry they have many problems in common. They are also bound up with the industry as a whole so that the treatment of any one portion affects it in its entirety. As has been stated, there are large integrated companies which perform all the operations of the lumber industry from the holding of the timber to selling the finished product to the consumer. The financing of the separate functions of such companies is a problem decidedly different from that which is common to the smaller concerns which only perform a single operation. These large companies finance their logging and milling operations within their own organization.

Capital may be secured by the sale of bonds, by the company's general line of credit at the banks or through the sale of commercial paper. There are only a few firms in the northwest which use commercial paper and only one of these in any great amount. Only large integrated companies with a reputable financial standing can possibly use this system of finance because of the characteristics of commercial paper.

Ownership

The financing of logging companies presents a characteristic problem. Companies which log timber which they do not own are the exception rather than the rule. Many companies procure their ownership of the timber lands, however, during the process of logging, the title not passing until the payments are completed under a deferred payment contract of sale.

The timber may be obtained by logging operators in several ways. The company may be holding timber which it bought from the government years ago. For instance, one

large logging company in western Washington is now operating upon timber which it bought in 1887 and has held untouched for thirty-five years. The timber may be bought outright for cash or upon a deferred payment plan from other individuals or companies, who have been carrying it a long time. In the case of a purchase upon a deferred payment plan a stated amount is paid upon execution of the contract and the remainder in regular installments. If more than the specified amount of timber is removed during any one period additional payments are usually required to cover the excess. Title to the logs does not rest in the timber purchaser until they have been removed from the lands, and the title to the whole passes only upon completion of the payments.

One of the easiest methods of obtaining timber for logging operations, and one which is used by many of the smaller companies is by contract. In instances of this character a stipulated price per thousand feet is paid for the logs as they are removed. The title to the logs here does not pass until they are paid for. Small companies are thus enabled to log timber and pay for it as the logs are sold.

Another method of procuring timber for logging operation is a purchase contract, under which the timber owner receives his payment as a certain percentage of the sale price of the logs as they are sold. Part of the risk of the operation and of the condition of the market is thus borne by the timber owner.

If the seller in the case of any of these types of contracts is a mill operator, as is often the case, contract agreements are entered into whereby he obtains a preferential right to purchase all timber logged. Some milling companies own large tracts of standing timber and yet do no logging. It is to insure themselves of a constant source of raw material that their selling agreements contain provisions of this sort.

Log Sales

The sale of the logs to the mills is usually financed upon a cash basis, 2 per cent. discount being given for payment within ten days, the full amount falling due within sixty days time. Acceptances are sometimes given by the mill to the logging company as payment for its purchases, which are then discounted at the bank. This method of financing purchases, however, is not looked upon favorably by the logging companies. It is the prevalent idea that a mill in good financial standing should be able to meet its purchases by cash payments. Mills in such a position can easily borrow money from the banks upon their open line of credit or upon notes indorsed by officers of the company.

Ready to Leave the Woods

Wholesale Distribution

Financing the distribution of lumber does not present the intricate problems which arise in the attempts to purchase timber and to acquire capital to log and mill it, for here advances may be made upon the marketable commodity itself. Various methods of marketing the lumber are in vogue. The larger mills may have their own sales organization and thus sell direct to the larger line yards, or to the retailers and large consumers. It is estimated that approximately 20 per cent. of the output is sold by this method. Another 20 per cent. is sold to manufacturers' agencies, and the remainder is taken care of by wholesale and commission brokers. By far the greatest amount is handled through the lumber dealers or brokers. (The term is loosely applied to mean those who buy and sell outright.) The financing features of this latter method are rather unique and therefore are treated more fully.

The lumber dealer or broker buys the lumber outright from the mills, paying cash or at least 80 per cent. of the cost of the shipment. Brokers are not equipped with storage facilities but rely upon the mills to carry the surplus stock of lumber in their yards. The financing problem is therefore a limited one. Upon the sale of this lumber the broker takes to his bank the straight bill of lading, together with the invoice and description of the shipment. The bank advances from 80 to 90 per cent. of the selling price, less the estimated freight, upon the broker's own note, payable either upon demand or within ninety days, secured by the assigned account as collateral. While 90 per cent. is considered a maximum in the financial center of Seattle, banks in some of the smaller cities grant advances up to 100 per cent. of the face value to their reliable customers.

This is the feature which brands this method of obtaining financial advances as distinctive of this dis-

No...*Due*..

THIS NOTE SECURED BY	
Shipment Number....................................	*Seattle, Washington*,..., *192*...... *$*............................
Car Initial....................................	*On demand after date I promise to pay to the order of*
Car Number....................................	**THE METROPOLITAN NATIONAL BANK of Seattle, at its office in the City of Seattle,**
Consignee....................................	....*DOLLARS*
Destination....................................	*for value received, with interest after date at the rate of*.. *per cent per annum, until paid. Principal and interest payable only in U. S. Gold Coin, of the present standard of weight and fineness. For value received, each and every party signing or endorsing this note hereby waives presentment, demand, protest and notice of non-payment thereof, binds himself thereon as a principal, not as a surety, and promises, in case suit is instituted to collect the same or any portion thereof, to pay such additional sums as the court may adjudge reasonable as attorney's fees in such suit.*
Date Shipped....................................	
Invoce, $....................................	
Estimated Freight, $....................................	
Market Value at Seattle, $....................................	
Advance, $....................................	

Form of Note Used in Lumber Operations

trict. As the whole procedure is carried on upon a straight bill of lading the title to the shipment never rests in the bank, but passes direct from the broker to the purchaser upon shipment. Nevertheless, the bank handles the entire transaction, and payment is made direct to it, notice of assignment and instructions to remit direct to the bank being stamped upon the invoice. It would seem that this is a rather unusual method of financing, but it has proved highly successful and an immense amount of business is performed in this manner. It is in realty an assigned account from the broker to the bank. The credit of the consignee is carefully checked by the bank through the Lumberman's Red Book, mercantile agencies and other sources. Some banks, to protect themselves from the possibility of having a portion of their account offset by refusals to pay on the part of the purchaser, ask for an acknowledgment of assignment from him upon receipt of the instruments. Most of the paper, however, is handled without this acknowledgment.

A bank is not restricted by law as to the aggregate of loans to one individual or firm under this plan. Notes of this type are classed as obligations secured by documents covering commodities in actual process of shipment and hence are not subject to the usual maximum limit of 10 per cent. of the bank's capital and surplus. The broker is considered to have only an indirect liability to meet the obligation; the bank looks upon the consignee as primarily liable, since payment comes from him direct. Time notes mature in ninety days and it is the practice also to call the demand notes for payment at the end of ninety days even if the invoice is unpaid. Accordingly experience and sound banking judgment have led the banks to limit the loans so that the broker is in a position to stand losses and to carry the invoices which are not paid at maturity.

Separate Notes Required

Although blanket notes covering several transactions of a single broker were the original security to the banks, separate notes are now required for each shipment. Furthermore, the transaction is operated upon a general collateral agreement, any remittance applying not only upon the specific note securing that shipment, but to any other outstanding notes of the broker.

The details of the operation covering the note transactions vary with the different banks. Demand notes which are regularly taken up at the end of ninety days time and presented for payment are used by some banks, while others operate upon time notes, usually ninety days, which are, nevertheless, paid off as soon as the remittance for the same comes in. Demand notes are not eligible for rediscount at the Federal Reserve Bank. Nevertheless, they are in reality one of the most liquid types of paper the bank can carry as the turnover is fairly rapid and the paper cleans up regularly. Evidence of the reliable character of this paper can be obtained from the fact that a large Seattle bank doing from 25 to 30 per cent. of its business with lumber accounts has lost during its existence a meager $1100 by this method. The matter of rates is also a variable one. Some banks make a practice of charging a uniform rate for all accounts while others vary it to fit the conditions of the case. The interest rates at the present writing range from 6 to 8 per cent.

The bank keeps the note and a duplicate copy of the bill of lading and sends the original with the invoice to the buyer. The terms extended to the purchaser are usually 2 per cent. discount if paid in either ten or fifteen days, net at the expiration of sixty days from date of the invoice, although there may be a provision, as is customary with shipments to eastern states, for the terms to extend from the date of arrival of the lumber. The consignee often takes advantage of the discount, but it is also a common thing for him to wait and pay the full amount. The average length of time which the notes run has changed in recent years from forty-five to about sixty days. As a rule the East Coast takes a full ninety days and often requires four months, owing to the practice of billing from date of arrival of lumber.

Settlement is made by the bank to

the broker when the proceeds are received. The exact amount to be paid by the consignee cannot be determined until the lumber is weighed and the freight paid. All lumber is sold by brokers or mills at a price which includes the freight to point of destination. In this way the mill or broker must stand the added expense if he sends lumber which is not fully dried. (The arrangement between the mill and the broker is such that the mill ultimately bears all overweights and profits by underweights.) On the other hand, he gains if the lumber is underweight. Freight is estimated in advance but paid by the consignee and deducted from his remittance. If, for instance, the price for flooring at a Puget Sound mill is $50 per M the freight rate 60c per 100#, and the estimated weight 2000# per M, the price to the purchaser will be $62 per M. If the lumber weighs only 1800# per M there will be a saving of $1.20 which will accrue to the shipper, and increase the total received by him in his final settlement with the bank. An overweight, on the other hand, may leave him very little equity after paying the note with interest.

The distribution of shingles is handled in very much the same manner as that described above applying to the lumber. The only real difference is that a great many more shingles are sold upon transit shipments. In this case the car is loaded and consigned to some junction point, e. g. the Minnesota Transfer. As soon as the car starts to roll, wires are sent out in an attempt to secure a purchaser before it reaches its destination. This procedure may be followed on shingle consignments with greater safety, than is possible with lumber, for the shingles are uniform while lumber must come in the desired lengths and widths. Transit shipments are looked upon unfavorably by sound bankers and they will not loan or advance any money upon them.

Despite the fact that a tremendous volume of business may be done upon a very small investment, and that the major part of the broker's financial burden is carried by the banks, it is essential that he have some liquid capital invested in the business. In the first place, he must take up and pay his notes in case the buyer does not remit within ninety days. Then too, the method of selling by transit shipments requires a fair amount of capital which must be forthcoming from the broker himself. Liberal cash balances are also required on the total advances. Brokers' statements usually show an indebtedness equal to four or five times the capital investment.

Domestic Water-borne Shipments

Water-borne shipments of lumber from the Pacific Coast occupy an extremely important position in lumber distributions. Forty per cent. of the lumber produced in Washington last year was shipped by this method. The domestic trade comprising shipments to Alaska, the Atlantic Coast, California and the Hawaiian Islands, totaled last year 1,600,019,237 feet. This trade is almost entirely handled by the manufacturing or milling companies themselves, as the peculiar characteristics attending it bar the brokers and wholesalers from active participation. Most of the manufacturers have wholesale distributing yards at the points where shipments are landed. Moreover, many of them own their own ships. The financing of these water shipments is thus almost entirely an internal problem of the larger companies.

Exports of Lumber

Washington's exports of lumber to foreign countries have increased enormously within recent years, amounting to 579,000,000 feet in 1922. The deplorable condition of the export lumber market some seven or eight years ago, coupled with the cut-throat competition which existed at that time, caused the organization of the Douglas Fir Exploitation and Export Company which now handles practically 50 per cent. of the foreign shipments. This corporation takes orders from foreign buyers, distributes them among member firms and looks after the shipping. Shipment are assembled at various points up and down the coast. As representatives of this company reside in the foreign fields the financing of the shipment is handled through the organization itself.

The exports of the smaller shippers are usually financed upon a confirmed letter of credit taken out by the importer. Payment is made to the exporter in cash against delivery of the documents to his bank.

The Pacific northwest is not primarily interested in the retail end of the lumber business, as its chief functions lie in the production, manufacture, and wholesale distribution. To the financier of the northwest the carrying of the standing timber, financing of manufacturing and wholesale distribution furnish the interesting features in lumber financing.

Invested in Canada

Concerning the investment of American capital in Canada, the Bankers Trust Company says: "The United States would now appear to have invested in Canada, in round figures $2,500,000,000 or almost as much as the British investment. This would give as the total investment of foreign and British capital, as of January, 1923, in Canadian government, provincial, municipal and corporate securities, properties and enterprises, about five and a quarter billions dollars."

Convention Calendar

Date		Association	
June	11-13	Iowa	Ames
June	11-13	New York	Atlantic City, N. J.
June	12-13	Idaho	Idaho Falls
June	12-15	Association of National Credit Men	Atlanta, Ga.
June	15-16	Colorado	Colorado Springs
June	15-16	Utah	Logan
June	15-18	New England Bankers Association	New London Conn.
June	18-22	Michigan	Detroit and Lake Trip
June	19-20	Wisconsin	Milwaukee
June	19-20	South Dakota	Rapid City
June	23-24	Maine	Portland
June	19-21	South Carolina	Greenville
June	21-22	Ohio	Toledo followed by Lake Trip
June	21-23	Dist. of Columbia	Hot Springs, Va.
June	23-24	Maine	Portland
June	26-27	Illinois	Rockford
June	27-29	North Dakota	Bismark
July	17-20	Amer. Inst. of Banking	Cleveland, Ohio
Aug.	9-11	Montana	Great Falls
Aug.	21-22	West Virginia	Fairmont
Sept.	5-6	Kentucky	Louisville
Sept.	7-8	New Mexico	Cloudcroft
Sept.	11-12	Indiana	Indianapolis
Sept.	24-27	A. B. A.	Atlantic City
Oct.	26-27	Arizona	Tuscon
Oct.	28-31	Investment Bankers	Washington, D. C.

Market News for Bankers

By C. B. SHERMAN

Market Technologist, U. S. Department of Agriculture.

"THE economists of our bank find your review of the live stock markets their most reliable published information as to live stock market conditions" stated a representative of one of the largest banks in New York City to a representative of the Federal Department of Agriculture. This banker went on to say that it was his bank's intention to rely on this review to a large extent in financing live stock operations. Many other research departments maintained by large banking institutions to study economic conditions and the various factors affecting prices of commodities, are using Federal material.

In fact, the Bureau of Agricultural Economics may be used as a kind of research department by those banks that are not in a position to develop such departments of their own. When agricultural banks employ one or two investigators to make studies, these investigators can use the results of the work of this bureau as a basis and devote their attention largely to local phases of their problems and to local application of the information Federally supplied.

Crop Estimates and Reports

Estimates of acreage of the principal crops and conditions of crops, and estimates of production and supplies of crops and live stock are compiled and issued at stated intervals. The purpose is to place before all classes of people an accurate picture of food and agricultural supplies, potential and actual, together with location in respect to market and consumption. Prices to farmers are included.

These estimates, gathered from official sources and checked and rechecked Federally, have long been known and utilized by investors and banking interests. Those for cotton, cereals, and live stock are probably best known and most eagerly awaited, but many other crops are covered by this estimating service.

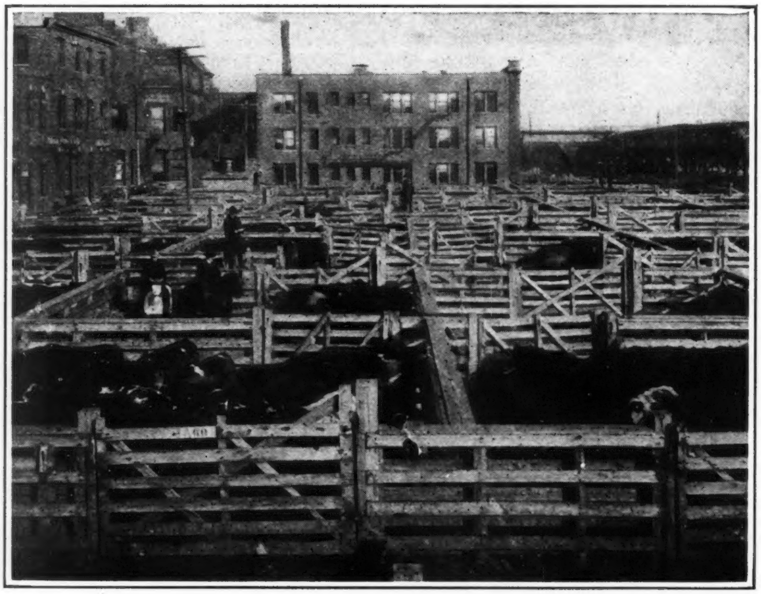
Market news services are conducted on fruits and vegetables; on livestock, meats and wool; dairy and poultry products; hay, feeds and seeds; on cotton quotations; and arrangements for a grain market news service are now under way. The market reports give specific information regarding the day's market with mention of supplies, actual and potential, movement, sales, prices, conditions in producing or shipping areas and on other large markets.

That this market news may be unbiased and impartial it is gathered straight from the sources by representatives of the Government stationed in the large markets of the country and in commercial producing areas. Methods differ according to the commodity involved. These reports are supplemented by those received from hundreds of voluntary reporters, such as officials of rail, steamship and other transportation companies, county agents, marketing associations, distributors, warehousemen and manufacturers. This information is telegraphed to Washington, where the market news of the entire country is compared, digested, tabulated and redistributed to all the agencies who have need for it.

In this dissemination, the Department has developed and used every safe and practicable method within its reach. Leased telegraph wires, mimeographed reports for quick local circulation, mail, newspapers, banks, and other institutions, the radio-telegraph and radio-phone have all been utilized.

Used by Banks

The Peoples National Bank of Charlottesville, Virginia, was, it is believed, the first to advertise its weekly receipt of the Federal "Marketgram" as a part of the bank's service to its depositors and to invite its patrons to call upon it for Government market information in person, by telephone or by mail. Mention of this fact in a banking journal brought twenty-five requests for the service from bankers within two weeks, and now the distribution of the marketgram through banks is very wide.



Reporting the Livestock Market

Radio Proves Popular

Banks were among the first to make requests for forms to take down the radiograms when they were first sent out in an experimental way in 1920. Radio, as a successful medium for sending out market news to farmers, has proved itself to the skeptics. At present market reports are broadcasted several times each day from more than eighty radio telephone broadcasting stations and are being received by thousands of actual growers, shippers, bankers, millers and dealers in all sections of the country. Broadcasting by high power radio-telegraph stations of the Navy Department is making available to many remote telephone stations a volume of market reports that they could not get except by wire telegraph and at great expense. Rebroadcasting in this way is a means of distribution that has great possibilities and one that will be much used.

Recently when the stations of the middle west followed a market report by a request that all listeners-in who found the service of value notify the Department of Agriculture, half a hundred bankers wrote in within the week. "This is probably the greatest single service for the farmers that has been instituted in many years" was stated exactly, or in effect, many times over by bankers in the small towns.

Market news helps to keep bankers in rural districts in touch with nation-wide conditions, in planting, in crop prospects and in the markets handling locally-grown commodities and their competitors. During heavy shipping seasons farmers call at the local bank frequently, and market information distributed through the bank carries great weight in the farmer's mind.

Localized Services on Perishables

Localized market news services covering all the large markets, as well as local conditions, with a Federal market representative on the ground, are given annually during the heavy shipping season for many fruit and vegetable crops and have proved a great aid in stabilizing the marketing of these perishable crops, formerly notoriously fluctuating. One market reporter begins with a crop in the far south and follows it north and west as the season advances. Thus, the potato news service will begin with the early crop in Florida, with headquarters at Hastings, and will later operate at Greeley, Colorado; Idaho Falls, Idaho; Kaw River Valley, Kansas; Red River, Minnesota; Waupaca, Wisconsin; Rochester, N. Y.; and Presque Isle, Maine. The watermelon man will begin at Ocala, Florida, and move northward to Thomasville and Macon, Georgia, to Kennett, Missouri, and to the later fields farther north at the end of the summer.

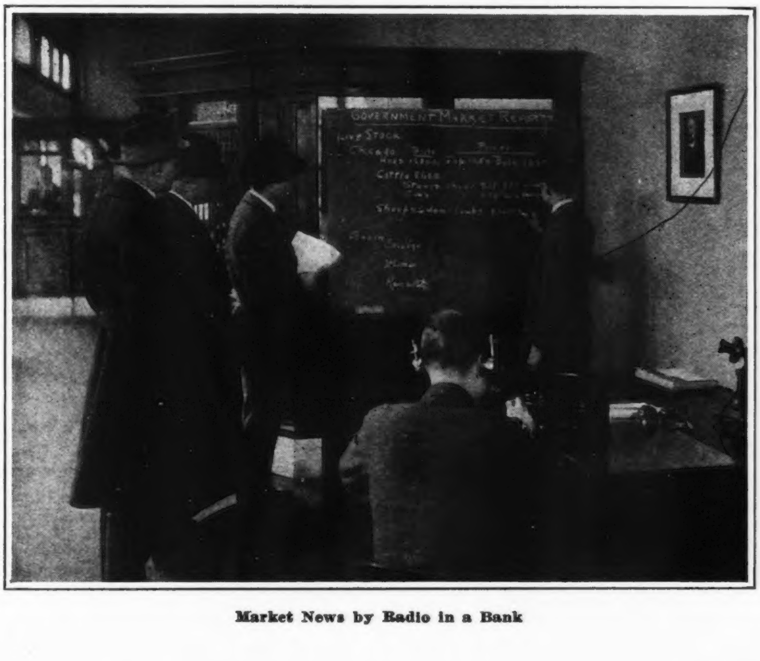
Extend the Service

That bankers find these market reports of very practical value is evidenced by the tangible support they give in extending the service. Thus, among other such cases, during recent seasons the Carrizo Springs State Bank of Carrizo Springs, Texas, paid the telegraphic toll charges on daily market reports sent them from the temporary field station at Laredo, Texas, during the onion shipping season. This information was posted daily in the bank for the benefit of customers. During last August the Southwestern Idaho Bankers' Association of Caldwell, Idaho, paid the costs of securing and telegraphing the Fort Worth market reports on potatoes, which reports were distributed free of charge to the potato growers and shippers throughout the Idaho early potato producing district. These bankers are finding in such services a fundamental way of building up the agricultural wealth of their communities.

Minors as Stockholders

A bank asked a ruling from the Commissioner of Banking of Wisconsin as to issuing shares of stock to minor children.

The Commissioner of Banking on the strength of an opinion from the Attorney General held that it was legal for a bank to issue its shares in the name of a minor, but that the double liability continued to attach to the former stockholder or the person who presented such shares for issue in the name of the minor until the minor reached the age of twenty-one and for a reasonable time thereafter to allow the minor to ratify or repudiate the assumption of the double liability.



Market News by Radio in a Bank

Qualifications of National Bank Examiners

By O. R. McGUIRE

PRIOR to the Civil War period frenzied financial and even criminal operations of many banks had resulted in an unfavorable state of public opinion in regard to all banking institutions. The framers of the National banking law were cognizant of this state of public opinion and evidenced a working knowledge of crowd-psychology by the requirement that every bank established under that law should be examined by examiners appointed by and responsible to the Federal Government.

The requirement of examination of national banks by representatives of the United States is primarily in the interest of the patrons of the bank. Stockholders are presumed to be able to protect their interests through the election of trusted officials and through personal investigation of the conduct of these officials while, of course, patrons of banks have no such power or opportunity. Public opinion is indeed sensitive where economic issues or welfare is involved and it was believed by the Fathers that assurance to the public that national banks were being examined by representatives of the Federal Government would restore and preserve public confidence in the integrity of banking institutions. That their belief was well founded must be apparent when we review the banking history of even the last decade.

Col. J. N. McIntosh
Deputy Comptroller of Currency

The purpose to be subserved by the examinations of national banks is a clew to both the qualifications and the method of appointment of the men who are to conduct such examinations.

A national bank examiner should be equipped with both theoretical and practical training for the duties of his position. As a condition precedent, he should have an education substantially equivalent to that required by the average college for the baccalaureate degree combined with training in the elements of commercial law and bank bookkeeping. If he has had training in the law of receiverships and in the law of bankruptcy, so much the better. His practical training should have been in a bank and of such a nature as to give him a good working knowledge of the various departments of a bank and the factors entering into the evaluation of commercial paper.

In addition to the theoretical and practical training which a national bank examiner must have in order to secure appointment, he should have good judgment and be the possessor of tact, firmness, and courtesy. He must have good judgment to correctly evaluate the intangible assets in the portfolios of the institutions he is called upon to examine; he must possess sufficient tact to acquire the necessary information for an approximate determination of the value of the intangible assets of a bank without disclosing either the purpose or the source of the information; he must have firmness to point out the weak points in an institution and to secure their correction; and above all his relations with bank officials, stockholders, employees, and the general public should be marked by dignified courtesy.

A national bank examiner may examine banks without some or all of these qualities but without their aggregate he cannot render the maximum of service to the great public whose confidence in banking institutions is largely in his keeping.

Examiners are appointed by the Comptroller of the Currency. In lieu of the fee system which formerly prevailed, they are entitled to annual salaries fixed by the Federal Reserve Board upon the recommendation of the comptroller and to a per diem allowance when away from their homes or their designated headquarters. There are at present in the service twelve chief national bank examiners and approximately two hundred eighteen examiners. They are not under the Civil Service, but hold their positions during the pleasure of the comptroller. However, examiners are appointed and are continued in office on the basis of merit, both the appointment and continuance being singularly free from partisan politics.

Examinations for appointment are held at irregular intervals in the office of the comptroller of the currency, to which are admitted such applicants as have shown by written applications that they possess the requisite theoretical and practical training. The examination is both oral and written and covers in a general way the main features of the National Bank Act as amended, the law of commercial paper, and the general duties of an auditor of a bank.

Willis J. Fowler
Deputy Comptroller of Currency

Some of the Major Problems

By JAMES E. CLARK

FROM Bible times down to the present the migrations of peoples from one place to another have marked epochs in the histories of some countries, the very beginning of history for others. The Exodus from Egypt, the migrations from the shores of the Mediterranean to Britain, the migrations from Europe to America made more than mere history for they were the forerunners of new conditions affecting the well-being of future generations as well as the well-being of the generation of the migrants. When we recall that the coming to this country of a little group of venturesome souls was the beginning of this nation, and recall also that the stream of immigration into this country has been practically continuous for more than a century and a half, then the statement recently made by Congressman Albert Johnson, chairman of the House Committee on Immigration, that "wholesale migrations of people to the United States are ended for all time," becomes an announcement of tremendous significance. If Mr. Johnson is correct, then his statement means that the supposedly temporary wall recently erected against the waves of emigration from overseas is to be strengthened to a degree of permanency. It means also that the stream of emigrants which for several centuries has freely flowed from Europe into the United States now must change its course.

Mr. Johnson is quoted as saying:

"In spite of strenuous appeals from those who feel that the United States cannot develop its own common labor, I can assure you that the President has not changed his views. He wants prosperity to hit on all six cylinders, but he does not want prosperity to go tearing down the road at ninety miles an hour. Increase in wages is an important part of prosperity. A shortage of labor is not necessarily a shortage of laborers. If there is a corner in labor of certain kinds that corner cannot be broken by the sudden abandonment of the restriction law, or by the pouring in of the hordes from Europe.

"It took forty years to find a President who would sign an immigration restriction act. That President was Harding. He did it for the future of the country. Wholesale migrations of peoples to the United States are ended for all time. We are no longer an asylum. Everybody now advocates some form of restriction. Our committee, I think, wants two per cent. on the 1890 census, and is willing to provide one per cent. additional to be used by the fireside relatives of those now here. That means three per cent. on the 1890 census basis."

It is doubtful if any of us have ever realized the influence this tide of immigration has had upon our lives. Unconsciously we have been influenced in many ways by these strangers. They have done much of our manual labor for us; they have in creating wealth for themselves incidentally created wealth and opportunity for those around them. Their wants have formed a gigantic market and there is no man styling himself an American who has been able to draw his garment so closely about him that both himself and his investments have been removed from some advantageous influence of this constantly increasing multitude of producers of wealth. In the dogged industry and spectacular achievements of some of the newcomers, there has also been a spurring on for some of the older stock and an inspiration for others, all of which has not been without its economic value.

Whether immigration should be permanently restricted or allowed in greater moderation is no part of the present discussion. Apparently, we have come to the end of one chapter of history—and a long one too, and henceforth we are going to live under changed conditions. How these conditions are going to affect us economically is of prime importance.

There is perhaps something analogous between the abundant use of foreign labor in a practically unlimited supply and of farming practiced where lands are so cheap and fertile that little heed need be taken of the time when the soil would be exhausted. At least each of these practices has been characteristic of the haste of the individual to accumulate wealth. Agriculture has found that exhaustion of the soil has not been a good thing for the country; perhaps the perspective of some later day may show that an endless stream of raw labor has by the same token not been good for the country. The war revealed that peoples whom we had clothed with the privileges and often the honors of citizenship were in fact still aliens and unfriendly too; some later upheavel of society may show us that these revelations were but a small part of the whole picture.

But the fact of primary importance is that we have entered upon a new national era, not simplified by our marvelous advancement along all lines of legitimate endeavor but instead complicated by that very advancement, and complicated still more by the unsettled world around us.

The conclusion therefore seems fair that there is an important economic change under way, vast in its scope and so gradual in its movement that it is difficult, if not impossible to gauge its direction or its final effects. But in its broad aspect, as well as in those lesser phases which more directly bear upon us as individuals, it is worthy of our most profound study.

Migration and Maladjustment

A negro exodus from the farming districts of the south to the industrial centers in the north occurring soon after the restriction of immigration is probably not a coincidence but instead is in some degree influenced by the shutting off of the supply of European labor.

A survey made by the U. S. Department of Agriculture showed that from Georgia, 32,000 or 13 per cent. of the total number of negro farm hands had moved north in the last twelve months. From South Carolina 22,750 or 3 per cent. of the negro population; from Arkansas survey shows an estimated movement of about 15,000 or 3½ per cent. of the negro farming population. The migration from Florida is estimated at 2 per cent., from Alabama 3½ per cent.; from Louisana 1 per cent. and Tennessee has lost 4500 negro farmers in twelve months. The migration from Kentucky has been small and there has been no migration reported according to the announcement, from North Carolina, Missouri and Oklahoma.

"I Hear Yo' Callin' Me"

It is Estimated that 100,000 Negroes Have Left the Farm Districts of the South for Industrial Plants in the North

The principal reason given for the movement is the prospect of high wages in the northern industrial centers. Contributory causes are: Unsatisfactory conditions due to the ravages of boll weevil; the dissatisfaction of ex-service men whose knowledge of the world and of better living conditions has made them restless, and the breakdown of the contract labor system.

In this then we have the phenomenon of an internal migration in part induced because we have put up the bars of immigration—induced also by other circumstances but distinguished from the movement of foreigners by the fact that whereas some of the latter class went to the land—indeed some of the immigrants made directly for the farms—this migration is entirely away from the land with the result that labor shortage compels the curtailment of acreage under cultivation.

The movement is of especial interest when considered in relation to the cotton situation. The mills are eating up cotton at an unusually rapid rate and if the recent rate of consumption were maintained there is in the opinion of some observers "scarcely enough cotton in sight to last until the new crop will be available." The movement also is of special interest because it is but an accentuation of a country to city movement that is more or less constant.

But the chief consideration lies in the effect which this desertion of the farm is likely to produce on the country as a whole. At first glance it might appear that if long continued, the migration of men from farms to industrial centers would, by reducing the supply of farm products, tend to make for better prices for the farmer. There are, however, several intervening considerations. There is no prospect that the cost of transportation of what the farmer raises is going to be lower; no prospect,—indeed, the contrary—that the manufactured articles the farmer has to get from the very industrial centers that are luring his labor away are going to be lower. There is also that line of men between the farmer and the ultimate consumer whose employees are not immune from the influences of opportunities for higher wages.

Concerning wage increases as a factor in prosperity, and not with reference to the negro labor movement the bulletin of the National City Bank of New York recently said:

"As between the farmers and wage-earners, where the chief issue now lies, a rise of wages without any corresponding rise in the prices of farm products means that to the extent that the wage-earners consume each other's products they pay for the rise themselves, while in the case of the farmer as a normal consumer, his purchases will be reduced and the falling off will affect the industries unfavorably. The same is true of all classes except the wage-earners whose wages have been increased. Moreover, in the long run if the compensation of the farmer remains below the level of that in the other industries there will be a shift of labor from the farms to the industries until higher prices for farm products or lower compensation in the other industries restores the equilibrium. Meanwhile, however, while these adjustments are being made there will be maladjustment and bad times for everybody.

"All groups and classes are best served by maintaining the normal equilibrium—that is to say, the equilibrium which the natural competitive forces tend to establish. A general rise of wages, which has the effect of diminishing the compensation of the farmer, can be neither justified in morals nor made permanent. And of course the same would be true of any arbitrary effort to force wages below the normal level of compensation, cost of living considered."

There is no scheme of reasoning that will relegate to insignificance the importance of farm desertion.

A certain amount of country-to-town movement is to be expected but the growth of conditions which make farming a discouraging enterprise and the companion growth of other conditions which render industrial work attractive to farm folks make for a slow approach to a crisis not likely to be permanently sidetracked by palliative measures or make-shift legislation.

The Overlaw of Economics

Year by year and at a marvelous rate of speed has the work of mankind, especially in the United States, been divided and subdivided and again subdivided so that, here at least, nearly every one who works for a livelihood is a specialist.

One industry necessarily depends upon another. The architect depends upon the builder, the builder depends upon the carpenter, the mason, the plumber, the electrician, the coppersmith, the painter, and the iron worker. The needs of the carpenter that he may work on the job involve the activities of the lumber dealer, the needs of the latter depend upon the activities of the timberman, and all of them depend upon transportation by rail, water and truck. And to provide the tools, the instruments and the machinery of their callings there is called into action the work and the ingenuity of a whole world of industry. Even in the simple hammer of the carpenter there are a dozen chapters of industrial effort beginning at the mines and running through various processes until the hammer is fitted with an oak handle and packed in a box. The cycle is not completed with the completion of the tool. The hammer, however good, must be marketed and marketing means salesmen, circularizing, advertising, selling, freight, distributing to dealers, delivery, credit, discounts, and collections. Returning to the architect perhaps it is the manufacturer of hammers who has saved enough to employ him.

So with every one's trade and the things that are necessary for its prosecution; so with every one's life and the things necessary for its sustenance. The lines of dependence cross and recross each other. Every individual is a centre of the world but every one is dependent upon the rest of the world.

It should therefore be plain that industrial progress is a mass movement with something of the nature of a tidal advance governing it. Compensating influences and corrective actions attend all such phenomena. It is a movement vast in its scope, possessed of the momentum of ages, and constantly accelerated by new utilizations of force.

Of little avail then are arbitrary rulings of groups. "There can be no productive effort anywhere without action and reaction throughout the whole industrial system. There can be no monopoly or isolation of benefits or injuries."

If, to illustrate, the iron miners add extortionately to the costs of iron all of the many trades and industries which supply the iron mines and their men with what they need, do not meet in solemn conclave and designate one trade to pass back the extra cost to the iron mines. Instead, every industry returns the compliment with the result that the sum total of compensating charges eventually constitutes a set-back rather than a gain for the extortionist. What does it profit a man if he gains a 10 per cent. increase in

wages or in prices but presently has to pay a 15 per cent. increase in wages or prices?

President Puelicher of the American Bankers Association in a recent address to an Association of canners impressively presented the need and the advantage for a larger and broader view-point in the conduct of business. He emphasized the necessity to the canners of a good crop of produce from the farmer *at a fair price,* the necessity for employment for the canners *at a fair price,* the necessity for good transportation *at a fair price,* and the necessity for good food furnished by the canners to the public *at a fair price.* In brief he reviewed processes through which the pubic is enabled to get canned produce, from the time it leaves the farmers' hands to the time it gets to the ultimate consumer, and he emphasized the necessity that in each stage and step of the process all persons involved should receive for their material or their services, *a fair price.* That consideration dominated the deliberations of the body referred to.

There is a lot of unnecessary friction, unnecessary cost and unnecessary struggle due to the fact that each trade and each class and each division of labor when it meets is too often devoted entirely to its own immediate interests forgetting that its own welfare is directly and immediately affected by the welfare of the mass.

There is an overlaw governing economics. In our strivings for special advantage we are constantly setting into motion corrective forces. Mass drives make for maladjustment from which maladjustments the whole organization must suffer. The movement forward must be in unison.

We must recognize that nothing will be lost, that much will be gained through recognition of the existence of economic unity.

State Senator E. E. Jones of Bradford, Pa.

Appointed Member of the Federal Farm Loan Board

Laws and Liberty

Are we enacting too many laws? It is estimated that the new laws in state and nation each year number twelve thousand. In an article in *The Constitutional Review,* James Hartley Beal says:

"Another fact frequently brought to the attention of the student of political history is that peoples who have obtained their liberties by the most heroic of sacrifices have so frequently thrown them away again in the frivolous pursuit of things they thought would make their liberties still more secure and their freedom still more free. The story of the democracies that have failed shows that their vigor and prosperity regularly declined with the growth of internal legislation, or with the forcing of obnoxious regulations upon the citizens by the factions which successivelv obtained control, until they had so weakened themselves by internal strife that they fell to pieces of their own weight or were an easy prey to enemies from without.

"Of course no people ever intentionally destroyed their own liberties. They always intended their law making to make their countries better and stronger. Their uniform mistake was in consenting to the violation of fundamental principles for the sake of some fancied immediate good which their radical legislation was expected to accomplish. The one great lesson of all these unsuccessful attempts at self-government is that a nation which willingly submits to the suspension of the principles of free government for the sake of expediency, or for the accomplishment of some quick and immediate reform, will in the end always come to grief. Principles that can be suspended for beneficient purposes can also be suspended for evil purposes, and laws intended for purely good ends can also be enforced oppressively."

Problems of British Agriculture.

By W. F. Crick

Committee on Agricultural Credit Recommends the Formation of Mortgage Societies to Assist Farmers in the Purchase of Land, and Co-operative Credit Associations to Undertake the Financing of the Production and Marketing of Agriculture Products.

UNLIKE the United States Committee of Agricultural Inquiry, the body set up by the British Government in October, 1922, to see what could be done to aid agriculture in its temporary and more permanent difficulties was restricted to one aspect only of the general problem, namely the provision of adequate credit facilities for the farmer. Hence the Committee on Agricultural Credit did not by any means go to the bottom of the farmer's difficulties, nor did it deal with more than one of his numerous complaints. Within its limitations, however, it has issued a most valuable report* upon the credit facilities now available for agriculturists, and made some suggestive recommendations for their improvement.

The Committee found itself faced with two major problems, the one more or less temporary, arising out of the war-time actions of the Government, the other of a more permanent nature. The former was concerned with the provision of long-term credit to assist tenant farmers in the purchase of the freehold of their farms, and landowners in the permanent improvement of their property. The latter involved the furnishing of short-term credit for facilitating the production and marketing of crops and intermediate credit for the purchase of live-stock and farm equipment.

Permanent Improvements

Dealing first with long-term credit, the Committee found that the present facilities supplied the needs fairly satisfactorily. During the last seventy years a company, known as the Lands Improvement Company, has been operating, under the supervision of the Ministry of Agriculture, to advance sums to landowners for improvements, the sums being repayable over periods of from 15 to 40 years. The mortgages imposed being readily assignable to insurance companies, the resources of the Company are almost unlimited. Up to 1920, however, the rate of interest on these mortgages was limited by statute to 5 per cent., while at present that figure may be exceeded only with the permission of the Board of Agriculture. The Committee recommends, in this connection, that this privilege be extended to any associations acting under the same statutes as those from which the Lands Improvement Company's powers are derived. By this means, coupled with greater publicity, it is believed that no necessity will be felt for any governmental assistance.

Conditions of Land Purchase

Turning to the matter of land purchase, however, the problem requires much closer attention. During the past twelve years, at least, there has been a noticeable tendency towards an increase in occupying ownership of farms. This was due primarily, before the war, to increasing taxation, impelling absentee owners to dispose of their property. To the increasing power of this impetus during the war was added, on the farmers' side the attractiveness of high prices for their products and good prospects for their continuance. For this situation the Government was largely responsible. In order to encourage farmers to increase their crop output, the Corn Production Act of 1917 guaranteed certain minimum prices for specific products, notably wheat and oats. In 1921, contrary to what were taken to be specific pledges of the continuance of the arrangement, as a feature of permanent agricultural policy, the Act was repealed.

Whatever the degree of justification for the farmers' faith in the future of governmental guarantees, the fact remains that, (in the words of the Committee), "in certain individual cases purchasers were directly influenced by the Corn Production and Agriculture Acts, if not actually to embark on ownership, at any rate to pay a higher price for their farms than in other circumstances they would have been prepared to offer." Accordingly, there lay with the Government a certain responsibility to assist such farmers out of the situation in which they found themselves as a result of the slump of 1920.

The Present Situation

At present agricultural prices are at a level distinctly lower than that of general commodity prices. The "Economist" index number for cereals and meat, taking the 1913 average as 100, puts the level for Feburary, 1923, at 146, showing a distinct downward trend, while for all commodities the figure is 171.6, revealing a gradual upward movement. In many cases prices have fallen below cost of production. At the present time English wheat is selling at a price not more than 20 per cent. above the pre-war level. The following table of prices is illuminative in ths connection:

"Gazette" average price of British wheat per quarter.

1913	31s.	8d.
1914	34	11
1915	52	10
1916	58	5
1917	75	9
1918	71	11
1919	72	11
1920	80	10
1921	71	6
Harvest year 1922-23 *	40	5

* From the "Economist"; 25 weeks ending March 3, 1923.

These circumstances alone account for a large part of the agriculturist's difficulties. Added to this, however,

* Report of the Committee on Agricultural Credit, Cmd. 1810, 1923; obtainable from Kingsway, London, W. C. 2; Price 9d.

is the fact that land purchases were made at prices of anything up to 50 per cent. above the pre-war levels. These commitments undertaken when commodity prices were at a much higher level, have been converted from comparatively light to well-nigh unbearable burdens. It has to be noted, however, that even now prices are at a level which, under ordinary circumstances, would enable the farmer of means to meet such commitments. The problem is concerned, therefore, in the main with the farmers who would not ordinarily have bought their farms, but who were attracted into the position of installment purchasers, so to speak, by the unusually bright prospects of 1918. The position has been rendered worse by the fact that, owing to the recent slump in the value of farm land, resale can only be undertaken at a heavy loss to the unfortunate war-time purchaser.

Existing Facilities

The financing of these purchases has been borne very largely by the banks, lending on overdraft. Such a method has many advantages for the purchaser, but is scarcely in the nature of an attractive investment for the banks. The rate on overdrafts is around one-half to 1 per cent. above bank rate, with a minimum of 5 per cent. and the banks are not finding it easy to liquidate their loans in this direction. While recognizing the perversion of functions involved in the continual renewal of these overdrafts by the banks, it is gratifying to record that the Committee "was satisfied that the banks are handling the situation with patience and forbearance and are showing reasonable consideration within the recognized principles of sound banking."

In the interests, not only of the individual farmer, but of production and employment in the agricultural industry, the Committee made a careful study of existing state machinery for the assistance of long-term financing operations. The Farm Bloc in the United States Congress may be particularly interested to learn that, to the Committee, it appeared that "ample provision" existed in the United States and Canada. Nevertheless, and despite the emphasis placed upon the importance of national production, as a consideration rendering individual difficulties of more than individual concern, the Committee recommends that State assistance should be extended only to those who contracted to purchase their farms during the operation of the Corn Production Act, 1917-1921.

The Committee's Scheme

The proposals visualise the setting up of Mortgage Societies, to issue debentures to the public, the proceeds of which would be used to make loans on mortgage to purchasers eligible under the scheme. The state would guarantee the interest and principle of the debentures. Loans on mortgages would not exceed 75 per cent. of the present value of the security, and would bear interest at not more than one-half per cent. above the debenture rate, and be repayable by half-yearly instalments covering a period not longer than the life of the debentures, (maximum 40 years). Of the one-half per cent. excess interest, one-fourth would go to the State for the building up of a reserve fund, and the other one-fourth to the societies to cover expenses. It is estimated that the societies should be able to raise money at 5 per cent. the farmer therefore being called upon to pay 5½ per cent.

The proposed rate is above the present average level for bank overdrafts. However, the latter being elastic, the committee is optimistic that farmers will be attracted to the regular scheme of repayment outlined in the recommendations. As to the 75 per cent. maximum, the committee considers it not only ample but safe. Its view as to safety is based on the statement that "capital values are based on the long view and are not greatly affected by ephemeral conditions." Nevertheless, it recognizes, earlier in the report, that agricultural land values rose, during the boom, to anything up to 50 per cent. above 1914 levels, and subsequently fell by from 15 to 20 per cent. Presumably the Committee's view is that a further decline is unlikely.

As contrasted with these conditions, the problem of the provision of short-term and intermediate credits is of a more permanent nature. It should be remembered that the bulk of the financing of crop production and movement is performed, not by means of the discounting of notes, but by overdrafts or deferred payments. Perhaps in part as a result of this distinction, the British Committee seek to set up one agency for the performance of the duties imposed upon two separate bodies—the Federal Reserve System, for short-term, and the Federal Agricultural Credit Corporations, (under the Capper bill), for intermediate credit—in the United States.

The conclusion arrived at by the Committee is summed up in two sentences from the report. "The most effective way of increasing a farmer's credit status is by inducing him to link up his credit with that of his fellows. This is the principle of co-operative credit which has been successfully applied to the case of farmers in other countries and we are convinced that it is in this direction that a solution of the short-term credit problems of agriculture in this country should be sought."

Co-operative Credit

The plan proposed, under this principle, consists of the formation by the farmers, under state encouragement and supervision, of local Co-operative Credit Societies, all affiliated to special branches of the Department of Agriculture. The Government would advance to these societies £1 for every £1 of capital (at least 5 shillings paid up) subscribed to the societies, the government contributions to rank for all purposes prior to the capital. On these advances "the lowest economic rate possible" should be paid. The funds so raised, and augmented, if the societies so desired, by deposits from members or non-members, would be utilized in loans to farmers for any agricultural object which represented in their view a sound and remunerative investment.

Such a scheme would undoubtedly supply a very long-felt need in Great Britain—a need which has been met in almost every western European country by some scheme encouraging self-help among the farmers, by the offer of a measure of State assistance in some form or other.

Publishes Its Own Newspaper

By J. M. Case
Dime Saving Bank, Detroit

Detroit Bank Gave Free Advertisements to Neighborhood Merchants, Distributed the "News" Free at Homes and Found that New Accounts Procured for a Branch Cost but 75 Cents Each. Merchants Like the Idea and Bought "Certified" Space.

THE Dime Savings Bank of Detroit, Michigan, recently opened a new branch at Twelfth and Pingree Avenues. To advertise this branch to the neighborhood and to secure the good will of the merchants in that district the bank hit upon the idea of publishing a newspaper of its own and distributing the paper to every business house and residence in the community.

The publication was called the *Twelfth and Pingree Neighborhood News* and contained an announcement relative to the opening of the branch. Also it announced a Children's Day at the new office. Local news items were incorporated and advertising was obtained from the neighborhood merchants.

With a dummy of the publication complete except for the advertisements, a representative of the bank called on each merchant in that territory and gave to him a small space under the heading "Certified Bargains" at no cost to the merchant and regardless of where he did his banking. To those who would open accounts with the bank, the representative extended the additional inducement of a larger display advertisement in the paper.

Twelfth - Pingree
Neighborhood News

DIME BANK OPENING BRANCH AT TWELFTH AND PINGREE

Temporary Office Open Until New Building Is Completed. Complete Banking Facilities Now Convenient For You.

1000 MOVIE TICKETS FREE FOR BOYS AND GIRLS

THE SECRET OF SUCCESS

HENRY FORD IS VERY OPTIMISTIC

ARE YOU A BOOSTER OF OUR NEIGHBORHOOD?

GRAY & BLACK SHOP OPENS

NEW SPORTING GOODS STORE

REAL ESTATE OFFICE OPENS

CERTIFICATES OF DEPOSIT

HOW ABOUT YOUR VOTE?

Consult Your Banker

A Special Shopping Service for Housewives

SUBSCRIPTION COUPON

The bank had a better circulation to offer than the local community newspaper as it guaranteed 5,000 copies and as the advertising space was worth $1.50 per inch to the merchant the latter was quick to take advantage of the offer.

Through the newspaper the bank secured the good will of everyone on the street by giving to every merchant at least a small advertisement. A great many new and desirable commercial accounts were thus obtained; within a week after the date of issue, the branch had received the account of practically every merchant who had an advertisement in the paper even including the ones who had taken only the "Certified Bargains" space. Each advertisement represents from one to three accounts, so the enterprise proved to be decidedly profitable.

The very day that the issue was distributed, three merchants called at the new branch inquiring how they could get their advertisement into the next issue. These merchants were located farther up and down the street than those on whom the bank's representative had called. These three merchants also, become depositors and have their advertisement running in the second issue.

Aside from the actual accounts that this newspaper brought into the new branch, the bank would have been perfectly satisfied with the advertising value of the paper just as a piece of literature distributed to every home in that section. Considering the fact that many accounts both commercial and savings were obtained in addition to the general publicity, those in charge feel that this newspaper stunt is one of the best new business getters.

The new accounts through this medium cost about 75 cents apiece without the time required for solicitation—A record hard to break.

This introduction of the bank to the community had more than the merit of novelty for through the newspaper a service was actually rendered.

How Silver Affects China's Trade

By F. R. ELDRIDGE
Chief of Far Eastern Division, Department of Commerce

THOSE of us who are used to the effect of exchange fluctuations between countries on a gold basis where movements of commodities, unbalanced budgets, inflation, etc., play important parts are not apt to appreciate the effect of dealing as one must on a specie basis in China in practically two commodities—silver or gold and merchanidse every time an import or export transaction is consummated.

Of these two transactions by far the most risky and difficult is the transaction which secures the gold to pay for the imported goods from abroad or the silver to purchase the goods from the interior to be exported.

July Prices in April

If a Chinese merchant desires to purchase piece goods in April for July delivery, he can easily get a July price in gold from an importer. If a foreign merchant wishes to purchase silk in China for July delivery, he can easily obtain a July price in silver from an interior merchant.

The next problem for the Chinese merchant and by far his most serious one, is to assure himself that with the amount of silver which he has calculated he can pay for the goods and make a profit, he also can secure enough gold in July to meet the draft drawn on him in foreign currency to cover the goods ordered from abroad. He has but two courses open to him. Either purchase forward "exchange" on the foreign country from which he has ordered the goods for the same date on which the payment becomes due —July—or keep his silver and take a chance on getting more gold for it when July comes on the assumption that July "spot" silver will be worth more than the forward price at present.

On a strong and prospective rising silver market generally he can figure that his silver will purchase more gold dollars four months hence than they will at present. At any rate, the Chinese usually takes a chance. On a weak and falling silver market he is quite sure that his silver will not purchase as much gold in July as it does now. If he is not a speculator, but must have a regular supply of goods to fill customers' orders from the interior, he will purchase gold for July delivery even though the July "spot" silver may go lower than silver which he can purchase forward and give him less goods than by purchasing his gold at present. If he is a foreign merchant he will not purchase his goods forward at all on a falling silver market unless he has definite orders from responsible Chinese merchants and is assured that they will meet their obligations.

Many Chinese merchants will prefer to wait until July, when the same amount of silver which they now possess, though probably buying less imported goods for July "spot" delivery than on an exchange fixed "forward" for July now and perchance if silver goes up, buy more goods and make a gain instead of taking a loss.

The Speculator

The speculating merchant, if silver should rise instead of fall, would be able to buy "spot" goods in July cheaper than the non-speculative merchant who pays relatively more for his gold "exchange," bought forward in February, but who wishes to know definitely in February what his goods will cost him in July. At any rate the speculator stands a chance to gain and he need not buy at all if silver does not react as he wishes.

A falling silver market in this way tends to check forward commitments by keeping speculators out of the merchandise market, although it may stimulate use of silver to purchase gold drafts at "spot" rates provided the merchant can thus afford to tie up his cash. It stimulates "spot" business but checks "forward" business, depending always on the interest rate at which funds can be borrowed and, of course, the spread between ready and forward rates for silver.

Two principal elements enter into the fixing of the price of silver, world supply and merchandising demand. Assuming that an increase in the world supply promises a fall in silver prices, the above reaction in the import markets of silver currency countries like China takes place. The tendency is to buy gold and sell silver "forward." The result is an over-bought gold and an over-sold silver position "forward" on the part of all exchange banks.

In the Export Trade

In the export trade the exact reverse is true. The foreign exporters who seldom speculate in the silver they will need to make July purchase of silk and other raw materials want to trade gold exchange for silver for July delivery at present low "forward" rates of silver so that they can purchase more export commodities in July with their "for-"ward bought silver when "spot" silver may have risen.

As pointed out the speculative importer does not want to buy gold and sell silver exchange for July delivery because he prefers taking a chance on it going up and putting himself in an advantageous position over the regular merchant. On the other hand the non-speculative foreign exporter does want to sell gold and buy silver exchange for July delivery because he does not speculate and wants to be sure to have as much silver, without speculating, as he can for his present available gold with which to buy silk delivered to him in July. There is, therefore, a scarcity of silver offered to the banks by the first group, whereas there is a great demand on the banks for "forward" silver by the second group. This process tends to bid up the July price of silver by increasing the merchandising demand for that metal, and check the downward tendency due to over supply.

Is the French Debt Collectible?

By O. R. McGUIRE

THE agreement reached with Great Britain for refundment within sixty-two years of approximately 47 per cent. of the aggregate of the vast sums of money loaned by the United States to the Allies, focuses attention upon our next principal debtor who owes us approximately 37 per cent. of the sums advanced, and who carries the interest charges thereon in her budget as a "political debt to the United States."

A brief consideration of the purposes of the loans to France, of her economic condition, and a comparison of her budgetary condition with that of England will indicate the proposition with which we are confronted.

Each Nation Responsible

Long prior to the entrance of the United States into the World War, it had been demonstrated that none of the Allied governments could provide financial aid outside of its own territory except to a very limited extent. War restrictions prevented the free movement of goods, gold and securities; foreign payments could only be made by selling one currency and buying another with resulting depreciation of the one and appreciation of the other. Economic laws governing international exchange had forced the Allies to the conclusion that the people of each nation should respond in taxes and domestic loans to the financial needs of its own and inter-Allied account; thus it came about that the rule was early established that each nation would be responsible for the financing of its own and inter-Allied purchases within its territory. When the United States joined in the struggle, she accepted the established rule with the result that France became indebted to us in the sum of $3,358,104,083.20.

The total gold supply of the world has been estimated in the report of the Director of the Mint at $8,561,921,000. The French debt of $3,716,514,527.47 to the United States totals more than a third of the entire gold supply of the world, of which gold supply France holds only $694,839,000.

The payment of the French debt to America cannot be effected through the purchase of gold in the world markets but must be effected, if at all, through the establishment by the French people of credit balances arising out of trade and other financial relations. Moreover, the French nation must be able through taxation supplemented by other income, such as reparations, to secure the means with which to purchase these credit balances from her exporters and others. In this connection, the following table showing the total value of visible French exports and imports, both before and after the war, is pertinent:

Exports 1913	Exports 1921	Imports 1913	Imports 1921
6,880,217	20,553,101	8,421,332	23,548,273

(Hundred francs omitted)

Excess of Imports 1913	Excess of Imports 1921	United States Excess Imports 1913	United States Excess Imports 1921
1,541,115	1,995,372	472,119	1,542,078

The table shows that France had an apparent unfavorable balance of trade even before the war and that it is steadily growing larger. There is a difference between the post-war and pre-war unfavorable balances: before the war there was a seady flow of invisible credits from foreign investments which took care of the deficit in the visible trade balance. That flow has now largely disappeared through failure of her debtors as in the case of Russia, Mexico, Turkey, and Bulgaria or through the liquidation during the war of her holdings in the United States and the British Empire.

Known Losses and Gains

When known French losses are offset by known French gains, her economic conditions and the unfavorable balance of trade make it fantastic to expect France for a long time to come to pay her debt to the United States out of excess of exports over imports, either in direct trade with us or in triangular operations.

The Budget

The following table shows the condition of the French budget both before and after the war:

Francs	1913	1921
Receipts	4,926,246,002	26,558,611,566
		41,816,364,160
Expenditures	4,736,603,634	15,257,752,594
Deficit	* 189,642,468	

*Surplus.

During the interim France was converting her credit balance into a deficit of more than half of her total receipts, England increased her credit budgetary balance from 750,897 to 176,022.00 pounds sterling. The reason for the difference may be found in the following table of per capita expenditures, revenues and taxation in pounds sterling:

	Total Expenditures 1913	Total Expenditures 1921
Great Britain	4.83	23.15
France	6.11	22.9

Total Revenues 1913	Total Revenues 1921	Taxation 1921
4.10	29.2	21.16
5.2	11.3	9.3

The English are the most heavily taxed people in the world but they have succeeded in reducing their per capita indebtedness to approximately $822.54 as against $1,229.62 for France and $226.35 for the United States. Interest on the French national debt amounted to 50.9 per cent. of the total revenue in 1921, 59.9 per cent. in 1922, and 64 per cent. in 1923, while "taxation has reached the point where it defeats its purpose." A recent estimate made by the French Finance Committee placed the French national wealth at 800,000 million francs, or 6,547 francs per capita or 15.7 per cent. less than the pre-war wealth.

At the time we were making advances to England and France to pay for their purchases in the United States, they had and were making advances to the other Allied powers to pay for purchases within their territory. The following table indicates the relative position between the two powers and shows England through the transactions remaining a creditor, while France became a debtor nation.*

This would seem to demonstrate that even though the French people

* See table on next page.

should succeed in reversing the balance of trade, the French nation would be unable, could she collect every dollar that is due her and through taxation, unless hitherto untapped sources of revenue are found, to raise the necessary means to purchase from her exporters the trade credits to apply on her indebtendenss to the United States.

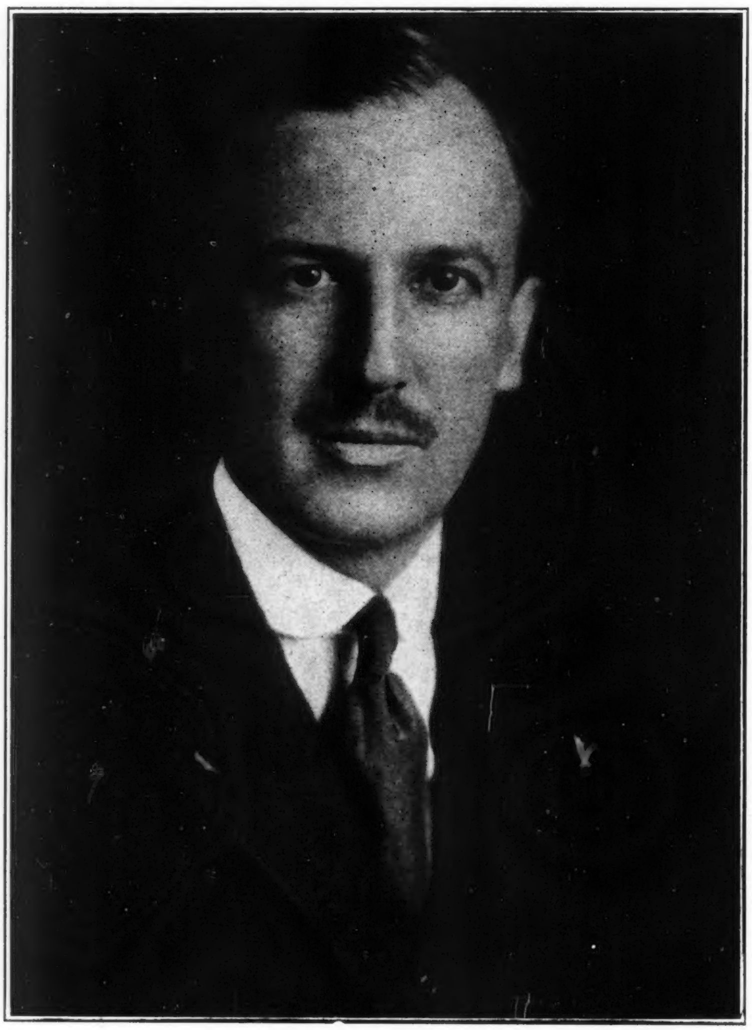
The only other hope lies in the collection of the reparation payments. France was scheduled to receive 52 per cent. of the total German reparation payment of 132,000,000,000 gold marks, namely 68,640,000,000 gold marks, either in

	France	England
Loans to other nations	$2,717,888,500	$9,465,336,000
Borrowed from U. S.	–3,358,104,083	4,166,318,358
Borrowed from England	–2,707,020,000	
	$–3,347,235,583	$5,299,017,642
Less loans to Russia which are uncollectible	–1,111,000,000	–2,728,404,000
Balance	$–4,458,235,583	$2,570,613,642

cash or in kind. Germany has paid on account 1,500,000,000 marks, has defaulted on the remainder, and France has occupied a portion of her richest industrial territory to enforce payment. Students of world finances believe that Germany can pay more than $10,000,000,000 and that only over a period of twenty years with little or nothing for the first period and the greater part during the second decade after she has had an opportunity to reestablish her internal finances and her people have had a chance to build up foreign trade credits. France charges that Germany has hitherto sought to evade payment; that Germany was not devastated during the war; and has proved that with currencies reduced to a common denominator, German citizens have paid less taxes than French citizens. But it should also be noted in this connection that the French people have been unwilling to receive except to a very limited extent, German labor or German deliveries in kind.

Whatever may be the real cause, Germany has met only about one-sixty-eighth of the total reparation payments and has declared her inability without a moratorium to make further payments. There is little relief in sight for the French budget through reparation payments; on the contrary there is every evidence that the deficit will grow greater through her attempts to force immediate payments.

A statement recently issued says that official figures of the French Treasury disclose that 781,335 persons were assessed in France for general income tax in the year 1921. The yield from the tax during that year was 1,146,000,000 francs.



Edward P. Farley
Recently Appointed Head of the U. S. Shipping Board

It is World Wide

The impoverishment of shipping is not confined to the United States. The shipping trade of the world is suffering from the aftermath of the war, and the depression in this industry is not confined to the American flag. All maritime nations are confronted with problems similar to ours, as a result of the overbuilding after the Armistice, and the high prices paid for tonnage during the boom in freights, which deluded all nationals who failed to study the possibilities of a business overdeveloped.—JAMES A. FARRELL.

The Condition of Business

Country Appears Able to Absorb the Production. Results of Publications on Caution. Labor Shortage Has Improved Efficiency of Production. Business Houses Conduct Operations So Carefully That the Need for Loans is Less Than Usual During Prosperity.

THERE is general agreement among students of business that there was a distinct pause during the latter part of April and the early part of May in the growth of business activity which has been going forward rapidly for more than a year. The production and shipment of goods continued at a high rate, but a new feeling in the atmosphere made itself manifest by a curtailing of orders for goods for future delivery. Prices of speculative stocks which have always acted as advance indicators of business activity lost ground heavily, new building projects were postponed, wholesale trade became less active particularly in textile lines, and the prices of a considerable number of basic commodities turned downward. The question for current discussion has been whether these events were the omens of a pause or a collapse of business activity; whether they represented a breathing spell or a faint.

Speculative Stocks

Between the latter part of March and the middle of May price averages of industrial stocks declined 10 or 15 points, and railroad price averages declined 5 or 10 points. In both cases the averages reached levels approximately equal to the low points of November which had followed the speculative activity of September and October just as the recent high prices follow the rather unusual activity of February and March. An interesting feature of the recent decline is the fact that it accompanied low money rates. Stock exchange money has been obtainable at rates between 4 and 5 per cent. and the rate was as a rule under 5 per cent. It has been very rare in the past for stocks to break heavily with as easy money conditions prevailing, and the explanation of the break in stocks is probably to be found in something other than the money situation.

Deferred Building

In New York, Boston, and other large cities, rising prices of building materials and wage disputes, which in many cases have been accompanied by the payment of high bonus payments in addition to the regular wage scales, have led to a deferment of building projects by a number of large interests. The recent rush for building construction in the past few months has outrun the supply of labor, and the available supply of materials, and has resulted in a competitive condition which has rapidly been making building costs prohibitive. These costs are now estimated at more than twice the pre-war level, and there has been an increase estimated at more than 3 per cent. in the past month.

The consumers' strike in the building industry has been reflected in the available statistics for the volume of building. The value of construction for which building permits were granted in New York City was so greatly reduced in April that the total building permits granted in 158 cities including New York were more than $46,000,000 less than in March. In the interpretation of these figures it should, of course, be remembered that the March figures constituted a new high record, and that with the exception of New York and a number of other large cities, the April figures continued to be in heavy volume.

The figures compiled by the F. W. Dodge Company for the value of building contracts awarded throughout thirty-six cities showed an increase between March and April, but this increase was less than generally takes place at this season of the year when building activities are usually increased by favorable weather.

Building contractors are divided in their opinion as to whether the present tendency to curtail operations will be widespread and powerful enough to check price and wage advances, and allow a good volume of building to continue at a more normal price level, or whether it will be necessary to have a building depression of some kind before wages and prices reach a more reasonable level.

Studies made by a number of statistical agencies, most notably by the Cleveland Trust Company, indicate that there still exists a widespread building shortage in this country resulting from the war years of under-construction. This shortage will have a tendency to guarantee a considerable volume of building under reasonable wage and price conditions.

Changes in Commodities

A recession in prices of a number of important basic commodities was reflected during April and the early weeks of May in such price indices as that maintained by Professor Irving Fisher and Bradstreet's. The changes in general price averages were not large, but were evidence of a less active commodity market. In the latter part of May there was some slight price stiffening.

The major price indices in use in this country have not as yet reflected these changes in any appreciable fashion. The Department of Labor index number for April was the same as in March. This index number is made up from the prices of about 400 different commodities, including manufactured and semi-manufactured products, as well as raw materials, and its changes show not only the situation in the markets for raw material, but also reflect, to

a certain extent, changes in wages. The Department of Labor index is now 15 per cent. higher than it was a year ago, an increase corresponding fairly closely with the increase in wages since that time.

Another index which is exceedingly slow to reflect price changes is the cost of living index, or the index of retail prices. One reason that these indices have remained so undisturbed is that they include heavy weightings for food and foodstuffs, which have tended downward rather than upward recently, a situation which also has implications for the farmer, who has paid higher prices for the goods which he buys and has marketed his product at somewhat lower prices.

Wholesale Trade

The figures for wholesale trade collected by the Federal Reserve Banks show in moderate degree the pause in advance ordering which has taken place in the past few weeks. The April figures were well above those for a year ago, but show a greater decline from the March figures than is usual for this season of the year. In the main the evidence at present as to wholesale trade is a matter of hearsay and testimony rather than figures. But there are reports from a large number of concerns that buying has been rather slow during the past few months. This has been particularly true in the textile lines and a number of Fall River mills have curtailed production, due to inadequate orders. Here again caution is necessary as to the interpretation of the facts, because during the month of March the textile mills made new high records in the volume of their output.

Significance of the Pause

The significant feature about these various evidences of some pause in business activity is found in the fact that evidences closely similar to these appeared in the fall of 1919 and early in 1920, before the general decline in business which is commonly dated from about the middle of 1920. Stock prices commonly anticipate the movements of business by some few months. The textiles are proverbially rapid in their response to changing conditions. Building construction reached its maximum in the latter part of 1919 and declined continuously during 1920. Wholesale trade reached its peak at the last part of 1919. It is because these events have in the past been indicative of changing conditions that they are worth watching.

The Effect of Caution

During the months of March and April a count of the number of speeches or the number of newspaper articles which advised the business man to be cautious with regard to his future demands would probably show a new high record for the appearance of such advice. It is natural that the effect of this heavy vote in favor of caution should be a large degree of actual caution in carrying forward business, and exactly this has occurred. The stock market, which reflects business sentiment, has reacted accordingly.

As the basis of all these words of advice is undoubtedly a sound need for caution in the present shortage of labor, rising wage rates, rising prices and the danger of undue credit expansion. But at present all the available evidence indicates that business is operating efficiently and profitably; that there is a genuine demand for goods; that there are small inventories on hand and little excess ordering. In other words, business appears to be sound.

The present rate of operation in production and sales is probably higher than the power of the country to absorb the goods indefinitely, but for the present at least the country appears able to absorb what is being produced. The caution which has exhibited itself in the ways outlined above has not affected an extraordinarily heavy volume of production and trade, which has continued to be at about the same rate as in the previous month.

Production

The production index of the Federal Reserve Board for the month of April stood at 125 (1919 average= 100%). This is about 1 per cent. lower than in March, but represents a rate of activity equal to the most active periods of the past. There were increases in the production of pig-iron and petroleum and decreases in the production of lumber and anthracite coal and the mill consumption of cotton. The production of pig-iron was a new high record and reflects the exceptional activity of the building and automobile industries, and the manufacture of railroad equipment. There is a pressing demand for iron and steel products as rapidly as they are produced, although even in this field there was a slight indication of greater caution in advance orders in a slight decline in the unfilled orders of the United States Steel Corporation. This decline probably represented a delay by consumers in placing their orders for delivery in the third quarter of this year.

The United States Bureau of Labor Statistics reported a continued increase in employment in industrial establishments and there were as many wage increases announced in industry as in the previous months, when the number of increases ran well over two hundred. Employment agencies continue to report further difficulty in securing unskilled laborers and certain types of skilled workers. A good many industrial concerns have begun to import workers from Mexico and from Canada, and a number of northern industries have undertaken to bring colored labor from the south.

Gains in Management

One interesting feature of the factory situation is the way in which the presence of a labor shortage has improved the efficiency of industry. By bonuses and by other special inducements the output per man has been increased and wage advances have been made possible without eliminating profits. One concern is encouraging its employees to purchase homes and is operating a loan fund for that purpose. Another is giving its men group insurance and if a worker threatens to leave, the wife is notified that the insurance will terminate when he leaves. Welfare work is being organized on a scale which has not been common during the past year or two. By these and many other devices more contented and efficient workmen are sought. The result of this policy and the policy of cautious ordering,

small inventories with low overhead, is a continued stream of business profits in most lines.

Banking Situation

Since the first of the year total loans and investments of member banks which report currently to the Federal Reserve System have increased only slightly There has been an increase of about $200,000,000 in the loans which are made largely for commercial purposes, but this increase has been mostly offset by the liquidation of securities which have been held by the banks. As bond prices have edged lower and stock prices reached their peak in March, many banks took the opportunity to sell security holdings. Funds thus secured have been available for the extension of loans to business enterprises as they were required. As a net result of this transaction, and the continued receipt from abroad of small quantities of gold, the banks of the country are in an exceptionally liquid condition, with large secondary reserves of short time securities, and very few frozen loans. Banks continue, however, to be cautious in their attitude in accepting new loans.

One of the real difficulties which banks are having is to employ their funds profitably. Business houses are being conducted with such great caution that their need for borrowed funds is smaller than usual at a time when business is active. Many business concerns now have large bank balances, whereas in times past in periods of great activity they borrowed heavily. As a result the demand for short-term high grade securities is exceptionally large, and banks and industrial concerns have in many cases found it difficult to purchase these securities in the quantity that they desire.

Unfavorable Trade Balance

In March and April for the first time since 1914 the value of imports into this country exceeded the value of exports, and for the two months the total excess of imports amounted to more than $100,000,000. This reversal of the trade balance follows a long period during which we shipped abroad continually much larger quantities of goods than we received in return, and as a consequence received payment in gold, or in securities representing capital holdings abroad. The reversal of the balance is probably a response to heavier purchases of raw materials to feed manufacturing activity in this country. Our purchase of these materials represents a boon to foreign countries. For too long the foreign countries have been unable to pay us in goods for the goods they have received from us. In spite of this reversal in the trade balance, there has continued to be some net importation of gold into this country. The net amount of such imports during April amounted to about $8,000,000.

Price Increases Abroad

One cause of increased imports into this country has been our very rapid recovery in business and the increases in prices in this country as compared with prices abroad. There has been a lag between the improvement of business in this country and the improvement abroad, but recently a transfer of the tendency in this country to foreign countries is observable in a more rapid increase in commodity prices abroad. In France, England, and other European countries there have been more marked price gains in the early months of this year than there were in this country.

Bank Salaries in Missouri

Investigations made by the Missouri Bankers Association and under the direction of Dale Graham, have revealed that 368 banks in the state, in towns of under 2,000 population are paying their cashiers and chief executives an average of only $110 per month.

Only 273 of the 1,162 reporting banks in towns under 5,000 population pay the president a salary. The report says:

"It indicates that, even allowing for the economy of living in small communities, the cashiers and managing officers of those 1,162 banks, who receive an average of $140 per month, either must have personal means to begin with, or must maintain the standards necessary to their positions as the leaders of their communities and the builders of the commonwealth by means of 'side lines,' such as selling insurance, collecting commissions on farm loans, and trading in real estate."

GENERAL AVERAGE OF SALARY FIGURES

	Banks of All Sizes, Cities With Population				
	under 2,000	2,000 to 5,000	5,000 to 10,000	10,000 to 25,000	25,000 to 100,000
Number of Banks reporting	1001	161	69	39	26
Average Cashier's salary	$1,615	$2,101	$2,570	$2,834	$3,578
Average per $1,000 of deposits	14.21	6.52	5.23	4.30	4.69
Average total Officers' salaries	2,888	5,392	7,177	8,623	11,513
Average per $1,000 of deposits	24.24	15.17	13.48	11.59	11.18

	All Cities Under 100,000, Banks With Deposits		
	under $200,000	$200,000 to $500,000	$500,000 to $1,000,000
Number of Banks reporting	766	391	99
Average Cashier's salary	$1,487	$2,003	$2,616

OPINIONS OF THE GENERAL COUNSEL

THOMAS B. PATON
General Counsel

Wrongful Negotiation of Trade Acceptance

A sold peanuts to B and at B's request drew and indorsed a trade acceptance which he delivered to B for acceptance, such delivery being for the sole purpose of having weights verified. B wrongfully negotiated the trade acceptance to C and mailed C's draft payable to A for the amount which was received by A without knowledge that the trade acceptance had been discounted. C later negotiated the acceptance to D. The acceptance was dishonored by B at maturity. Opinion: Assuming D is a holder in due course, he can hold A liable on the acceptance provided the latter has been charged by due demand and notice. D can proceed against any of the parties A, B or C at his election.

From Florida—A sold to B a car of peanuts. B explained to A that it was necessary for him to have the weights verified, and asked him to sign a trade acceptance payable to the order of himself, payable ninety days from date, and then asked him to indorse it. The transaction was between the bookkeeper for A who signed and indorsed the trade acceptance, and the agent for it. This was done before the acceptance of B appeared on the acceptance.

B as agent for A without authority discounted with C and mailed C's draft covering the amount of the acceptance payable to A. C discounted with D with C indorsement. D discounted with E with D indorsement. At maturity E charged the acceptance out to D's account. D notified C, B and A, that they held acceptance then past due, this notice being the first that A knew of the acceptance being discounted or used in any way except as explained by the agent for B at the time delivery of the peanuts was made.

B notifies A and D that they cannot pay and the peanuts have all been disposed of and there is no way of forcing collection from B of the acceptance.

We would like to know who is liable and what course would they pursue for collection. We would also like to know if D would have to call on A and B and not call on C first, if C is liable and financially responsible.

This is a case that involves a considerable sum. A is one of our customers and officers and we ask this information for future reference and protection. And for your information we believe this is a case that will be settled in the courts, and will be between banks and individuals.

In this case, as I understand B, the purchaser of peanuts, instead of paying cash or giving his note, arranged with A, the seller, through the latter's bookkeeper, to draw and indorse a trade acceptance, to be accepted by B, on making the explanation that he needed this document "to have the weights verified" and A entrusted the trade acceptance to B for this purpose. B however, wrongfully negotiated the trade acceptance to C and mailed C's draft payable to A for the amount which A received, not knowing it represented the proceeds of the acceptance. C having indorsed the acceptance to D and it not being paid at maturity, the question is asked whether D can hold A liable thereon and if so whether D can call on C first for payment before looking to B and A.

Assuming that D is an innocent purchaser for value of the trade acceptance, he would be a holder in due course entitled under the Negotiable Instruments Act to enforce payment from all parties liable thereon, free from defense of prior parties among themselves. In other words, as against a holder in due course A would be liable on the acceptance provided his liability was preserved by due demand and notice and the fact that the acceptance was negotiated by B in fraud of A's rights, would not relieve A from liability.

The liability of A the drawer of the trade acceptance in question, is the same as that of any drawer of a bill of exchange which is dishonored by nonpayment. When a bill of exchange is accepted, the acceptor becomes the principal debtor, and the liability of drawer and the indorser is conditional until the bill is dishonored. The drawer agrees with the payee and the subsequent holders that on due presentment the instrument will be accepted and paid, or both, according to its tenor, and that if it be dishonored and the necessary proceedings on dishonor be duly taken, he will pay the amount thereof to the holder, or to any subsequent indorser who may be compelled to pay it. This is the language of the Negotiable Instruments Law (Amsinck v. Rogers, 189 N. Y. 252, 82 N. E. 134, Cummings v. Kent, 44 Ohio St. 92) and is merely declaratory of the common law. (Germania Bank v. Trapnell, 118 Ga. 578; Turner v. Hickey, 3 Mart. N. S. (La.) 256; Morley v. Culverwell 7 M. & W. 174). It follows that, subject to the requirement of due notice, the drawer becomes liable for the payment of the bill on its nonpayment at maturity by the acceptor or the drawee. (Bickford v. Chicago First Nat. Bank, 42 Ill. 238; Shepard &c. Lumber Co. v. Eldridge, 171 Mass. 516; Bank v. Bossemeyer, (Nebr.) 162 N. W. 503; Manchester v. Braedner, 107 N. Y. 346; Hawes v. Blackwell 107 N. C. 196).

In the instant case, if the holder of the trade acceptance took the proper steps to fix the liability of prior indorsers and the drawer, A then he can proceed against any of them at his election. In other words, he can proceed against C if he chooses before looking to A and B but he has the right of course, to proceed against A whose sole recourse in such case would be against B.

As I understand the facts, A's bookkeeper who signed and indorsed the trade acceptance for the purpose stated did so with A's knowledge and authority and there would be no ground of defense that A's agent had no authority to draw and indorse the trade acceptance in his behalf.

Recovery Upon Lost Checks

Checks are drawn and given by A to B and lost in transit after leaving the hands of B. B asks A for duplicates and A, as a prerequisite, requests that B agree to indemnify A in case the originals are negotiated or paid. Opinion: It is usual for the maker to require indemnity before issuing duplicates for instruments alleged to have been lost to guard against the risk of false claim of loss or subsequent negotiation by the payee or a subsequent holder if the checks at time of loss are so indorsed as to be susceptible of negotiation and

many courts sustain such requirement. But some courts, including Ohio, hold that where, according to testimony of the payee, the instrument was unindorsed when lost or was lost after maturity, no indemnity can be required. In the particular case, should the payee refuse to give indemnity, its procedure would be to present copies or written particulars of the originals for payment and upon refusal of payment and notice of dishonor to the drawer, bring action against him for the amount.

From Ohio—Will you kindly render us an opinion regarding the advisability of signing a receipt in the case of lost checks. The checks were lost in transit and same have been charged back to us. We have asked for duplicates but the firm which issued the checks refuse unless we sign a receipt whereby we assume responsibility in case the checks are ever found and are paid whether we have anything to do with them or not. This seems unreasonable and holds us responsible in a manner whereby we have no recourse whatever.

What action would be advisable to take in order to secure these duplicates should we not see fit to sign a receipt as indicated?

In the case stated, your bank is the payee of checks which have been lost in transit and charged back to you. Your bank has requested duplicates from the drawer and the latter insists, as a prerequisite, that you sign a receipt for the duplicates in which you agree to protect the drawer should the original checks, bearing your indorsement, be paid at the drawer's bank.

A check is ordinarily a negotiable instrument. Concerning the necessity for indemnity before issuing a duplicate or paying the money upon a check claimed to be lost, it is customary to require such indemnity to guard against the following contingencies: (1) that the check was indorsed in blank when lost; (2) that the check has not been lost and payee makes false claim of loss; (3) that the check, even though lost, may be afterwards found and indorsed by the payee. In all these contingencies if the check should get in the hands of an innocent purchaser for value, the drawer would be liable on the original check. The burden of obtaining a duplicate of a lost check and furnishing an indemnity bond, would fall upon the owner of the check. The situation here is analogous to that of an *action* on a lost instrument. The rule there is that when defendant may be damaged by a subsequent claim of a purchaser from the finder a court of equity may and should decree that plaintiff furnish an indemnity bond with satisfactory sureties or otherwise protect the defendant. (Chesapeake &c. Canal Co. v. Blair, 45 Md. 102; McGregory v. McGregory, 107 Mass. 543; Walker v. Gillett, 98 Mich. 59; New Orleans &c. R. Co. v. Mississippi College, 47 Miss. 560; Heywood v. Hartshorn, 55 N. H. 476; Manhattan Sav. Inst, v, East Chester, 44 Hun (N. Y.) 537; Miller v. Rutland &c. R. Co., 49 Vt. 399).

Thus it has been held that in suits on negotiable instruments lost before maturity and payable to bearer or indorsed in blank plaintiff should be compelled to give indemnity as a condition precedent to judgment. (Price v. Dunlap, 5 Cal. 483 Robinson v. Darien Bank, 18 Ga. 65; Elliott v. Woodward, 18 Ind. 183; Berry v. Berry, 6 Bush (Ky.) 594; Miller v. Webb, 8 La. 516; Schmidt v. People's Nat. Bank, 153 Mass. 550; Hendricks v. Whitecotton, 60 Mo. App. 671; Kirkwood v. Hastings First Nat. Bank, 40 Nebr. 484; Sterne v. Title &c. Co., (N. J. Ch.) 110 Atl. 589; Des Arts v. Leggett, 5 Duer (N. Y.) 156; Deans v. Dortch, 40 N. C. 331; *Belmont Branch Bank v. Durbin, 2 Ohio Dec. (Reprint) 372;* Beaver Valley Lodge v. Beaver Falls First Nat. Bank, 7 Pa. Super. Ct. 552; Wiedenfeld v. Gallagher, (Tex. Civ. App.) 24 S. W. 333; Virginia Exch. Bank v. Morrall, 16 W. Va. 546).

But while it is apparent from the standpoint of the drawer or maker of a check or other negotiable instrument that, on claim of loss, he should be entitled to indemnity before issuing a duplicate or paying the money, some courts upon a showing that the instrument was lost after maturity or was unindorsed when lost, hold that there is no necessity for indemnity, as in such case there can be no innocent purchaser who can acquire enforceable rights. For example in your own state of Ohio the Supreme Court in a case decided in 1887 (Bank v. Brown, 45 Ohio St. 39) refused to require a bond of indemnity, and ordered payment by a bank of a negotiable certificate of deposit in the following case: A bank had issued its negotiable certificate and its depositor, Brown, sued the bank, alleging loss and that the certificate had never been indorsed by him. The bank claimed indemnity. The court held that the certificate being unindorsed, indemnity was not necessary and the bank must pay Brown without it. But the fact of non-indorsement when lost, was established by the testimony of the depositor and from the nature of the case the bank could not deny it; and as said by a dissenting judge: "It is possible, we need not say probable, that the certificate may have been indorsed for value by the payee before loss."

Not all courts have decided as did the Ohio Court in the above case and in view of the contingencies that an instrument may have been indorsed in blank when lost notwithstanding the payee's testimony to the contrary or that the payee has made false claim of loss or that the check may afterwards be found by the payee and negotiated, many courts uphold the maker's right to indemnity as a prerequisite to issuing a duplicate.

Coming now to the specific case presented by you. Checks payable to your order have been indorsed by your bank and lost in transit and the drawer asks that you sign an agreement for indemnity before issuing duplicates. You regard this request as unreasonable and ask what action it will be advisable for you to take to secure duplicates, should you not see fit to give indemnity. You did not state what kind of an indorsement you made on these checks nor to whom; but from your statement that should you make an agreement of indemnity your bank thereby assumed a responsibility in case the checks were ever found and were paid, it is to be presumed there is a possibility these checks were so indorsed that they might be negotiated by an indorsee to a holder in due course. So far as the bank of payment is concerned, if the drawer at your request should stop payment, it would remove all danger from this cause and limit the risk to the contingency that the checks may hereafter be negotiated to a holder in due course. There would, of course, be no risk to the drawer arising from the checks again coming to the hands of your bank, for your bank would not negotiate then and if payment was stopped, the sole risk would be, as stated, the contingency that the checks should

afterwards be negotiated by a subsequent holder to an innocent purchaser.

If the checks were indorsed by you restrictively so that they could not be negotiated by a subsequent holder if found and if payment was stopped by the drawer, then there would be practically no risk to the latter and it could safely issue duplicates without indemnity. On the other hand, if the checks were so indorsed by you as to be susceptible of negotiation by a subsequent holder, then there would be a risk that they might come to and be enforceable by a subsequent innocent purchaser and it would not be unreasonable as between your bank and the drawer that the latter should insist upon indemnity before issuing duplicates.

Should you decide not to sign a receipt agreeing to indemnify the drawer, the course of action for you to follow would be to make demand of payment of the drawee upon a copy, or written particulars, of the checks and then upon refusal of payment and notice of nonpayment to the drawer, to bring action against the drawer to recover the amount. In view of the decision of your Supreme Court in Citizens Nat. Bank v. Brown, supra, if you should testify that the checks at the time they were lost in transit were not so indorsed as to be susceptible of negotiation, it is probable that you could recover their amount without being compelled to furnish indemnity.

Collection by Insolvent Bank

Where a bank receives a draft for collection and after payment remits the proceeds by its own draft which is dishonored, because of its failure, such bank is a debtor and not a trustee for such proceeds under the law of California (the law in other states being conflicting) and the amount is not recoverable in full as preferred claim. Under the law of California a collecting bank which forwards an item for collection to its correspondent is not responsible for the default of the latter, where due care is used in the selection of such correspondent.

From California—Bank number one accepts draft with bill of lading attached against merchant. Bank number one receipts for collection on form stating it acts as agent and assumes no responsibility beyond due diligence. Item is entered for collection only. Draft is sent to bank number two who made collection and released bill of lading. Bank number two is closed by Comptroller. Is amount of draft a preferred claim? If not, who is responsible for loss?

According to the authorities in a number of states and the rule of the Federal courts, a bank which makes a collection and fails while the proceeds are yet in its hands, is a trustee and not a debtor for such proceeds and the amount is recoverable in full from the receiver. However in a few states the bank is held to be a debtor for such proceeds and the claim is not preferred. See citations of authorities in Digest of Legal Opinions 1921, No. 1172 to No. 1189 inclusive.

The rule in California will be found in Gonyer v. Williams, 143 Pac. 736. In that case a bank received for collection a draft on a third person which was duly paid. The collecting bank prepared a draft, less its collection charge, for the amount of the collection and forwarded same to its principal but it suspended business before its draft could be presented. The court held that the money was not a special trust fund, but the general assets of the bank were subject to the payment of the draft of the failed bank and the owners of the money collected were therefore general creditors and such money did not constitute a trust fund. The court differentiated the case of Henderson v. O'Connor, 106 Cal. 385, in which the money was not collected until after the closing of the bank and was actually paid to the receiver after the insolvency. In that case the collection proceeds constituted a trust fund as they had never come into the possession of the bank which as the plaintiff's agent had taken the draft for collection. The Supreme Court in the present case said that undoubtedly the bank was agent of the drawer for collecting the draft but this relation was changed by the manner of remitting the proceeds of the collection to that of debtor. It said that "when paper is received for collection, a trust relation often exists in the beginning which is changed by agreement or custom into that of debtor and creditor after the collection of proceeds."

In the case presented by you, assuming the collection was made and remittance draft forwarded before the collecting bank was closed by the Comptroller, the amount of the draft would not be a preferred claim under the California rule.

Upon the second question presented, bank number one would not be liable for the default of bank number two. In California the rule prevails that a collecting bank is responsible only for due care in the selection of a suitable correspondent, who becomes agent of owner of the paper and where due care is exercised and the collecting bank is not itself negligent in any particular, there is no liability for the default of the correspondent. Davis v. First National Bank, 118 Cal. 600. In the present case this rule is supplemented by the disclaimer of responsibility for correspondent's defaults, printed on the receipt which bank number one gave in accepting the draft for collection. Bank number one therefore would not be liable for any loss resulting from the default of bank number two.

Liability of Accommodation Indorser

A obtained the accommodation indorsement of B to a note payable to a bank on condition that A would also procure the indorsement of C. A negotiated the note to the bank without procuring C's indorsement and B disclaims liability because the note was negotiated in breach of his agreement with A. Opinion: At common law, the bank would be a holder in due course and could enforce payment from the accommodation indorser. Under the Negotiable Instruments Act the decisions are conflicting as to whether a payee can be a holder in due course and the point has not been decided in West Virginia. If the West Virginia courts hold that the bank is a holder in due course under the Act, the bank can enforce payment against B assuming his liability has been fixed by demand and notice.

From West Virginia:—A requests B to indorse a note for him telling B at the time that he would get the indorsement of C, in order to borrow money from a bank. A does not get C to indorse the note, but takes it to the bank bearing the indorsement of B only, and the bank knowing that the indorsement of B makes the note perfectly good, uses it for A. Later B claims that he is not responsible for the note, due to the fact that A did not procure the indorse-

ment of C. Can the bank as innocent purchaser of the note hold B responsible for the debt, they having no knowledge of the conversation of A and B?

If the bank in this case is a holder in due course, it can recover from the accommodation indorser free from his defense that the note was negotiated in breach of an agreement with the maker that the latter would procure another signature. Section 57 of the Negotiable Instruments Act provides that:

"A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves, and may enforce payment of the instrument for the full amount thereof against all parties liable thereon."

But I assume in this case that the note was made payable to the bank and while at common law the payee of an indorsed note negotiated to him by the maker would be a holder in due course, there is a conflict of authority under the Negotiable Instruments Act. It has been held in Iowa, Missouri, Oregon and Washington that the payee is not a holder in due course under the statute (Builders Lime, etc. Co. v. Weimer; (Iowa) 151 N. W. 100; Vander Ploeg v. Van Zuuk, 135 Iowa 250; St. Charles Sav. Bank v. Edwards, 243 Mo. 553; Long v. Shafer, 185 Mo. A. 641; Gresham Bank v. Walch, 76 Or. 272; Bowles Co. v. Clark, 59 Wash. 336.) While in Alabama, Massachusetts and New York (Ex p. Goldberg, (Ala.) 67 S. 839; Liberty Trust Co. v. Tilton, 217 Mass. 462; Brown v. Rowan, 154 N. Y. S. 1098), it has been held that the payee may be a holder in due course.

The view taken by the former line of cases is that where the maker hands his note to the payee, it is not a negotiation of the instrument within the meaning of the Act. The payee becomes a holder thereof but not a holder in due course. This view is negatived by the New York, Massachusetts and Alabama cases. For example, in Liberty Trust Co. v. Tilton, 105 N. E. 604, which was a case where the payee of a note purchased it before maturity without notice that an accommodation indorser signed on condition that another should indorse and that it be filled out for a less sum, the court deciding that the payee was a holder in due course within the meaning of the Negotiable Instruments Act said that plainly under that Act "a negotiable instrument payable to a named payee is negotiated when the physical possession of it is handed for value to the person named as payee."

The point has not been decided in West Virginia, but if the Massachusetts' rule is adopted there which, as said by the Massachusetts court "is in conformity with the terms of the Act and, being in accordance with the common law, is highly desirable as not upsetting the general understanding and practice of the commercial world," your bank will be held entitled to recover from the accommodation indorser.

Indorsement in Blank by Payee

Where a note is indorsed in blank by the payee it is thereafter negotiable by delivery and a bank which purchases the note from one other than the payee can recover from the latter, although not indorsed by a subsequent holder who transferred it to the bank.

From Arkansas:—We would like to have your opinion on the sufficiency of transfer of note. The note is made by John Doe, payable to the order of himself, and signed on the back John Doe. The note was sold to us by John Smith but not indorsed by John Smith. Is there any reason why we cannot collect this note from John Doe who is worth many times the amount of the note.

Under the Negotiable Instruments Act, a note indorsed in blank by the payee becames payable to bearer and is negotiable by delivery. As said by the Supreme Court of Pennsylvania in Dominion Trust Co. v. Hildner, 90 Atl. 69 which was an action on a note similarly indorsed in blank by the payee but not by a subsequent holder who delivered it to the plaintiff: "nor was it necessary that the note should have been indorsed by the party from whom plaintiff purchased the note. It was indorsed in blank by the defendant, which was equivalent to making it payable to bearer. After that the note was negotiable by delivery. Section 30 N. I, Act."

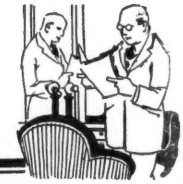
It follows that there was nothing irregular in the transfer of this note and your bank has full right of recovery against the payee who indorsed it in blank, in this case he being also the maker.

The Institute Convention

Plans for the Twenty-first Annual Convention of the American Institute of Banking, which will be held in Cleveland from July 17 to July 20, 1923, are rapidly nearing completion. This meeting will mark the twentieth anniversary of the first Institute convention which took place in Cleveland in 1903, and as such it is evoking particular interest among all members of the Institute, both old and young. There will be special features arranged by and for the delegates to the earliest conventions, many of whom will be present this year to renew old acquaintances and associations. They will be known as the "Pioneers," and their activities will culminate in a dinner given in their honor by the Cleveland Bankers Club on Thursday, July 19.

One of the principal addresses will be made at the opening session by E. T. Meredith, formerly Secretary of Agriculture of the United States; he will talk on "Agriculture and its Relation to All Other Interests," a subject which is of vital significance to every banker. There will be only one other formal address, to be delivered at the closing session on July 20; the speaker in this case has not yet been definitely selected. Thus, there will be but two regular convention sessions, the remainder of the work of the convention being given over to departmental conferences, other conferences, and general Institute business.

RECENT DECISIONS



DIGESTED BY THOMAS B. PATON, JR.
Assistant General Gounsel

Taxation of Building and Loan Associations — Discriminatory Taxes against National Bank by State—Montana

Bank paid under protest certain taxes levied upon its shareholders upon a 40 per cent. basis of valuation fixed by Revised Codes (1921) Secs. 2064-2067, and 1999-2000, claiming that its rights under U. S. Rev. Stat., Sec. 5219 (Comp. Stat., Sec. 9784) providing that "such taxation shall not be at a greater rate than is usual upon other moneyed capital in the hands of individual citizens of such state," were being invaded. This contention was based on the fact that building and loan associations were taxed on a basis of 7 per cent. valuation, by Rev. Codes (1921) Secs. 6363, 1919-2000. However, the court, mainly relying on the opinion in Mercantile Nat. Bk. v. Hubbard, 98 Fed. 465, and Mercantile Bk. v. City of N. Y., 121 U. S. 138 (7 Sup. Ct. 836) held that the words "other money capital in the hands of individual citizens" meant moneyed capital employed in competition with the business of national banks, and, since building and loan associations under the state statute are not banking institutions, nor are they permitted to carry on a banking business, they do not employ their capital in competition with national banks, so this different classification for taxation is valid. First Nat. Bank of Glendine v. Damron County et al, 213 Pac. 1097.

Checks for More Than Balance. Bank Can Choose which one to Pay—Massachusetts

Carroll, J. The plaintiff, a depositor in the defendant bank, on July 12, 1920, drew two checks—one for $100 and one for $300. They were presented to the bank for payment simultaneously on July 13, 1920, arriving with others through the mail. The available funds to the credit of the plaintiff when checks were presented, were $379.57. The defendant refused to pay either of the checks on the ground that the total amount of both exceeded the deposit of the plaintiff. The action is in contract or tort to recover damages for injury to the plaintiff's credit. The case is here on a report from the Superior Court.

If a check of a depositor exceeds the amount of his deposit, the bank may decline to pay it, and is not required to apply the deposit in partial payment of the check. Beauregard *v.* Knowlton, 156 Mass. 395. Dana *v.* Third National Bank in Boston 13 Allen, 445. But a bank is bound to honor the checks of its depositors, if it has sufficient funds belonging to them when a check is presented, provided the funds are not subject to some lien or claim. If the bank refuses payment of its depositors' checks when in possession of his funds, it is liable to an action by the depositor. Wiley *v.* Bunker Hill National Bank, 183 Mass. 495.

The two checks drawn by the plaintiff were presented for payment at the same time. There were sufficient funds on deposit to pay one of them, and in our opinion, it was the duty of the bank, in the absence of custom or a rule of bankers to the contrary, to honor one of the checks, the bank having the right to make payment in any order it may decide, until the deposit is exhausted. It was so decided in Reinisch *v.* Consolidated National Bank 45 Pa. Supp. 236. In that case the plaintiff's balance was $328. Seventeen checks aggregating $664 were presented at one time through the clearing house. Payment was refused and they were all returned. It was held, that it was the duty of the bank to pay some of the checks until the balance was so reduced that it was not longer possible to pay any of the remaining checks. In the opinion of the court, there was no necessity for injuring the plaintiff's credit by dishonoring all his checks when some of them could be paid. See also Caldwell *v.* Merchants Bank of Canada, 26, U. C., C. P. 294.

In 1 Halsbury's Laws of England, page 605, it is said: "If two checks are presented simultaneously, e. g., by the same mail or through the same clearing, and there are only funds sufficient to pay one, it is doubtful whether both may be returned." And "(c) Unnecessary damage would be caused to the customer's credit."

Dykers *v.* The Leather Manufacturers Bank, 11 Paige (N. Y.) 612, is not in conflict. In that case the depositor directed the bank to pay none of his checks, and later, the same day, checks were presented and dishonored. The depositor then withdrew all his checks, paying some of his creditors. The plaintiffs, who were payees of a check drawn by the depositor, brought a bill in equity to recover from the bank. It was held that the bank was right in obeying the order of the depositor to stop payment, and was not obliged to distribute the money among the depositor's check-holders.

The credit of a customer might be seriously harmed if all his checks, presented simultaneously, exceeded his deposit and payment on all of them was refused. And we know of no reason why this should be done. The banker is not injured. Payment of the checks according to his discretion imposes no hardship on him, all that he is required to do, is to pay the checks in whatever order he decides until the depositor's

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BUILDING and loan associations not being classed as banking institutions, not permitted to carry on a banking business—it was held that their capital does not come into competition with national banks and a lower tax cannot be regarded as discriminatory against a national bank.

WHERE two checks are presented simultaneously and the account is sufficient for either one but not for both, the bank is under obligation to pay one of the checks and may choose which one to pay, and if it refuses to pay both it is liable in damages to its depositor.

WHERE interest in excess of 6 per cent. is charged for money advanced by a broker to cover margins, it was held that there was no usury under Sec. 379 of the General Business Law of New York which abolishes the Usury Law in respect to advances of money repayable on demand.

THERE is conflict of authority on the liability of a bank for its correspondent's defaults. The New York rule is the antithesis of the Massachusetts rule, which latter is followed in Missouri and Illinois.

WHERE collecting bank reserved right to charge back "at any time and unconditionally" checks on the Treasurer of the United States, it was held that it could charge back a forged and altered check to the bank credited therewith, although over a year had elapsed since it was deposited.

ACCORDING to the Florida Law "it shall be considered due diligence" to forward a check en route "without delay in the usual commercial way in use according to the regular course of business of banks."

UNDER the Negotiable Instruments Law of Oklahoma, the payee in a promissory note cannot be a holder in due course.

IT was held in South Carolina that a certificate of deposit payable to the order of two persons could not be paid to the survivor on the death of one where the survivor did not own the funds but merely had a power of attorney to withdraw the amount.

funds are no longer sufficient to pay any of the remaining checks. The depositor cannot complain that some of the checks have been selected for payment and some refused. He is himself responsible that his account is overdrawn, he has caused the condition, and if any damage is occasioned because some of the checks are dishonored, the loss must fall on himself.

According to the terms of the report the case is to be remanded to the Superior Court for a new trial upon the question of damages. So Ordered.

Supreme Court of Massachusetts—Suffolk County. Decided March 14, 1923.

NOTE: This interesting decision helps to clarify the law. The same rule has been stated on the authority of the Reinisch case referred to in the Opinion and also on the authority of Sherburne *v.* Rickards, decided by the Superior Court of Chicago in 1898 (see Digest of Legal Opinions of Thomas B. Paton, Complete Edition 1921, paragraphs 912-916 inclusive).

BANKING. RULE FOR COLLECTING BANK—MISSOURI

"The Massachusetts rule is that, where one employs a local bank to collect, in a distant place, negotiable commercial paper, and does not make a special contract in relation to the transaction, he impliedly authorizes the bank to transmit the paper for collection and returns to a reputable, suitable, and competent subagent or correspondent bank; and, if such local bank in the usual course of business uses due diligence and transmits the paper to a reputable and competent subagent, its responsibility is at an end unless it makes itself responsible by some later act.

"The New York rule is the antithesis of the Massachusetts rule, and is that the local bank is the agent of the principal and has no authority, in the absence of a special contract, to employ subagents, and such subagents are responsible to the forwarding bank, and the forwarding bank is responsible for the subagents' conduct.

"In Missouri the Massachusetts rule has been adopted. Daly *v.* Butchers & Drovers Bank of St. Louis, 56 Mo. 94, 17 Am. Rep. 663. In that case it is held that, where a forwarding bank, with which a bill or draft is placed or deposited for collection, uses due diligence, and transmits the paper to a proper and competent correspondent, at a proper place to facilitate its collection, with proper instructions therefor, its responsibility is at an end, unless by some later act it makes itself responsible. It may not be amiss to observe that this is not only the rule of law in this state (Missouri) but the same rule of law has been adopted in the State of Illinois, where the draft was drawn." Hoffman et al. *v.* Mech. Amer. Nat. Bank of St. Louis. St. Louis Court of Appeals. 249 S. W. 168.

NOTE: This decision points out the need for a uniform code of collection, the law of collection being in conflict in the various states. (See Opinion 1190 of the Digest of Legal Opinions of Thomas B. Paton, Complete Edition 1921.)

CHARGING BACK ONE YEAR OLD ITEM FORGED AND ALTERED AGAINST UNITED STATES TREASURER—NEW YORK

Defendant, Federal Reserve Bank of New York, Fiscal Agent of the U. S., in a circular letter informed plaintiff bank in New Jersey that items against the Treasurer of the United States would be given immediate credit at par, but subject to final payment, and that the Government exercised the right of returning at any time warrants and checks which for any cause were not good. Plaintiff bank forwarded to defendant a check for $4,000 against the Treasurer of the United States, on April 3, 1919, and received credit thereon, and the check was marked "Paid 4-4-19-M9." On May 19, 1920, the Treasurer notified defendant that the check had been altered, and the indorsement of the payee forged, and a photostatic copy of the check in question was forwarded to defendant bank, which forwarded it to plaintiff. The court held that the item was not finally paid, as the defendant had to credit the sum back to the Treasurer of the United States. The court added that one year is a reasonable time for the detection of an error or forgery on a Government warrant, since there was a great rush of business, owing to a great accumulation incident to the conduct of the war. Closter Nat. Bank *v.* Federal Reserve Bank of N. Y., 285 Fed. 138.

FORWARDING CHECK FOR COLLECTION IN "USUAL COMMERCIAL WAY"; BANK NOT NEGLIGENT IN FORWARDING CHECK ACCORDING TO REGULAR COURSE OF BUSINESS OF BANKS—FLORIDA

Plaintiff, after banking hours, deposited check for collection in defendant bank on an out-of-town bank. It was customary for the defendant bank to place items deposited after banking hours in its vaults and enter them in the business of the next day, which it did in this case. At the end of the business day, which was Saturday, the next mail train was at 11:00 a. m. the following Monday. On this train defendant bank forwarded the check to its correspondent in Jacksonville, which bank forwarded it to its correspondent for collection in the town of the drawee bank. The last named correspondent bank failed after collecting but before remitting the proceeds, and the question is as to whether defendant bank was negligent in forwarding the check for collection. Rev. Gen. Stat. (1920) Sec. 4748 provides that it shall be considered due diligence to forward the check en route without delay in the usual commercial way in use according to the regular course of business of banks, and the court held defendant acted with due diligence. Montsdoca *v.* Highlands Bank & Trust Co., 95 So. 666.

STOCK BROKERS USURY. RATE OF INTEREST ON NOTES GIVEN TO PROTECT MARGINAL ACCOUNTS—NEW YORK

Certain stock brokers brought suit on two promissory notes which had been made and delivered to them by a customer. The defense was lack of consideration and usury. Neither note, on its face, bore any interest.

The customer had a marginal account with the stockbrokers and the notes along with certain stock certificates were given as security. The customer put up money from time to time to cover his margins and the brokers sometimes supplied the difference between the margin and the cost of the certificates, charging the customer interest on the moneys advanced by them to complete the transactions. The interest charged sometimes exceeded the legal rate in New York of 6 per cent. The only interest charged was this interest on the general account. The balance due in the account was always payable on demand either direct by or through a sale of the securities, and was always in excess of $5,000 and certificates of stock were always held as collateral.

Held, that the brokers could recover, since the interest was charged upon the account and not upon the notes. A higher rate of interest than 6 per cent. was not usurious.

The Court held that section 379 of the General Business Law of New York abolishes the Usury Law in respect to advances of money repayable on demand, made on certificates of stock pledged where the amount advanced exceeded $5,000. The defendant conceded that the interest was charged upon the account and not upon the notes, so that the section 379 applied and, therefore, there could have been no usury.

Brimley et al *v.* Robinson N. Y. Supreme Court, Trial Term Part IV., decided May, 1923, not yet reported.

PAYEE CANNOT BE HOLDER IN DUE COURSE UNDER THE NEGOTIABLE INSTRUMENTS LAW—NOTE GIVEN TO COVER SHORTAGE OF CASHIER WITHOUT CONSIDERATION —OKLAHOMA

The cashier of plaintiff bank misappropriated the funds of the bank, and defendant, relative of the Cashier, gave a note to cover up the shortage. The defaulting cashier was not released in any way from his liability for the shortage, and the defendant maker upon being sued on the note defended on the ground that it was executed without consideration, and this court held for defendant, that, when a third party gives his note to a creditor as a mere collateral without any circumstance of advantage to the debtor, or disadvantage to the creditor, the note is without consideration, and since absence or failure of consideration is matter of defense against any party not a holder in due course, plaintiff would not prevail. For the plaintiff payee is not a holder in due course as defined in Sec. 4102 of the Rev. Laws (1910). First Nat. Bank of Poteau *v.* Allen et al, 212 Pac. 597.

NOTE: Under the Negotiable Instruments Law the majority of cases (a few contra as in the Oklahoma case supra) are to the effect that the payee may be a holder in due course. (See Opinion 847, Digest of Legal Opinions of Thomas B. Paton, Complete Edition 1921.)

SAVINGS BANKS. AGENCY. DEATH OF PRINCIPAL REVOKES POWER OF ATTORNEY NOT COUPLED WITH AN INTEREST—SOUTH CAROLINA

The agreed facts are briefly as follows: "The Planters Savings Bank, the defendant herein, on February 5, 1920, received on deposit from W. A. Bright the sum of $3,550, for which it issued a certificate of deposit set out below. W. A. Bright died intestate in June, 1920, and on August 13 of the same year the defendant paid the amount of the certificate to J. G. Bright upon his indorsement, knowing at the time that W. A. Bright was dead. Demand has been made upon defendant for the payment of the certificate, which demand has been refused. It is also admitted that so far as this case is concerned there was no gift shown from W. A. Bright to J. G. Bright, either in presenti or by way of donatio causa mortis."

The certificate of deposit read:

"Planters Savings Bank,

Greer, S. C., February 5th, 1920, No. 2531.

This is to certify that W. A. Bright or J. G. Bright have deposited in this bank thirty-five hundred and fifty dollars ($3,550.00), payable to either order six months after date, with interest from date at the rate of 5½ per cent. per annum, on the return of this certificate properly indorsed. Interest after maturity at the rate of 4 per cent. per annum, unless renewed."

(Signed) "R. M. HUGHES,
Vice-President-Cashier."

The only question in the case is, was the bank authorized to pay the certificate of deposit to J. G. Bright, after the death of W. A. Bright?

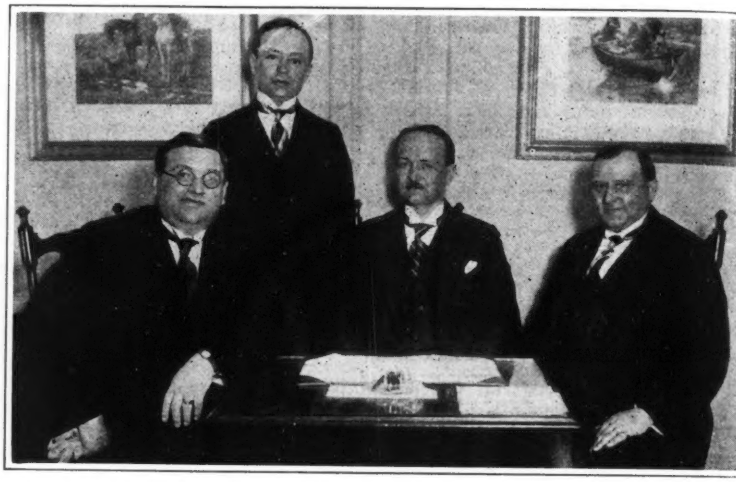
It is admitted that the money belonged to W. A. Bright, and after his death it was paid to J. G. Bright. Under these circumstances there was a mere power of attorney to withdraw the money. The death of the principal revokes a power of attorney, and therefore the bank was not authorized to pay the certificate of deposit to J. G. Bright.

Smith, Adams, *v.* Planters Sav. Bank (861).

Supreme Court of South Carolina. Received Direct. May 7, 1923, not yet reported.

CERTIFICATE OF DEPOSIT HELD A NEGOTIABLE INSTRUMENT: INDORSER LIABLE UNTIL PAID—TEXAS

Plaintiff vender of certain realty took in payment three certificates of deposit, aggregating $2,000, which were to bear interest at 4 per cent. if not cashed until six months after deposit. The vendee indorser accepted a check and got payment thereon, covering the value of the 4 per cent. clause, in case the money was left on deposit for the six-month period. The bank of deposit failed before the end of the six-month period, and plaintiff after demand and failure to get the money after the period, seeks to hold defendant liable as indorser. The court held for the plaintiff, for defendant indorser contracted that the negotiable instrument, the certificate of deposit containing negotiable clause, will be paid according to its purport on due presentment or demand. And here it was within the contemplation of the parties that the indorsee was not required to present the certificates for payment earlier than the interest date. Clark et al *v.* Holder et al, 247 S. W. 699.



Czechoslovakian Financial Mission

Members of the Czechoslovakian Financial Mission now in Washington to discuss matters relating to the debt funding of their country. Left to right: Frank E. Pisecky; Jan Loebel, secretary; Dr. Eugene Lippansky, counselor, Captain Stanislav Krenek.

Safeguards of Prosperity

The primary safety to continue prosperity will be continued willingness of our people to save their enlarged earnings, to resist extravagance and waste, to give full individual exertion. Our second safeguard rests upon the individual business man in today's well developed sense of caution and resistance to the will o' the wisp of higher prices and over expansion and speculation. Our third line of defense is our credit men and our bankers who can check the dangers of speculative credits. I speak of the credit men because the bankers are not the first to come in contact with the speculative buying. The danger point arises when there is an over-ordering of goods and the actual impact of these orders upon the credit machinery of the country does not arise for some time after such a movement has been initiated. Our bankers in daily contact with the commercial fabric of the country are fully alive to their responsibilities.

—Herbert Hoover.

DEPOSITOR NOT BOUND TO REPORT UNSIGNED CHECK AS MISSING: DISCHARGE OF DEFAULTING EMPLOYEE NOT SUFFICIENT REASON TO IMPOSE DUTY—PENNSYLVANIA

Plaintiff depositor lost one of its checks on December 18, 1920, after all routine of drawing and auditing had been performed, but before the treasurer had signed it. It had been appropriated by an employee through whose hands it duly passed in the audit. The payee's name was changed, the treasurer's signature forged, and it had been deposited in and forwarded by a distant bank, and paid by defendant bank on January 8, 1921, and returned to plaintiff on February 1 following. And upon this action to recover the amount of the check which had been charged against plaintiff's deposit, the court held that plaintiff was not chargeable with negligence in failing to notify defendant of the loss of the incomplete check. And although the defaulting employee was discharged soon after his misappropriation of the check, the circumstances leading to his dismissal not being so grave as to suggest to the plaintiff that he would commit the serious crime of forgery, plaintiff was not bound to notify defendant. Pure Oil Pipe Line Co. *v.* Columbia Nat. Bank of Pittsburgh, 119 Atl. 607.

TRUST COMPANY DIVISION

Convention Program

IT frequently happens that in large national gatherings there are men and women present who have journeyed long distances in order to secure help and assistance in the practice of their profession or conduct of their business.

To plan and prepare a program of worth while interest and value so that each section of the country and all classes of institutions shall receive definite benefit therefrom is a real task.

It is the task which now confronts the officers of the Trust Company Division, American Bankers Association, who constitute a committee charged with the preparation of the program for the September meeting.

At this date the general outline of the program is determined to the point where it is safe to promise talks, discussions and conferences which will be of definite value to every member of the official staff, as well as department heads and employees of the modern trust company.

Before finally fixing the program which will also include exhibits of various kinds, members are invited to forward to the secretary of the division all suggestions of topics which they believe will be of interest to those in attendance.

Mid-Winter Conference and Banquet

Thursday, February 14, 1924, has been selected as the date for the holding of the Fifth Mid-Winter Conference and Thirteenth Annual Trust Companies' Banquet in New York City.

These business and social gatherings are looked forward to by a greater number of trust company officials and their friends each year and the early announcement of the date should enable many of those living at a distance to plan their mid-winter visit to New York in order to be present at these events.

Lucius Teter, Chairman of the Executive Committee, has announced the appointment of the Committee on Arrangements for the banquet as follows:

Evans Woollen, president Fletcher Savings & Trust Company, Indianapolis, Ind. (chairman).

Theodore G. Smith, vice-president Central Union Trust Company, New York.

Uzal H. McCarter, president Fidelity Union Trust Company, Newark, N. J.

John W. Platten, president United States Mortgage & Trust Company, New York.

Francis H. Sisson, vice-president Guaranty Trust Company of New York.

Edwin P. Maynard, president Brooklyn Trust Company, Brooklyn.

Ten States Visited

Since the middle of March, the Deputy Manager of the Trust Company Division has met with Trust Company sections or groups in ten states. The area covered was principally throughout the central West and South. In each section of the country visited, trust business is reported as rapidly increasing. More intelligent and sustained efforts in telling the simple story of trust company service are responsible for the increase in this business, although the successful and efficient management of estates by trust companies generally has also been a large factor in securing many new appointments under wills and living trusts.

Practical Co-operation

(Extract from recent letter)

"Here is another illustration of the value of co-operative work between departments of a big institution. Something over a year ago one of our bond men informed me that one of his bond customers might be interested in some trust arrangements. Soon afterward, I got in touch with him and have had many interviews both at his office and ours, and correspondence with him since, lengthening out to more than a years' time. The result is that we are named as Executor and Trustee in four wills and two insurance trust agreements aggregating in present values approximately $750,000, with the funds constantly growing. I am informed also that one of the junior partners desires to make similar trust arrangements with us, so that the net result from one lead is a considerable item."

A Chinese Will

An interesting will written in Chinese was recently admitted to probate in San Francisco. It reads as follows:

"I, Chee Chong Wong, also known as Gee Fook Sing, know myself sick in bed, whether or not will be recovered, nor do I know that I will live from morning to night.

"This is my will if anything happens.

"I give to my wife, Gee Wong Shea, the whole of my property, which is as follows: Money with Bank of Italy; money with Canton Bank; also Quong Sing Lee Laundry, all of San Francisco."

New Orleans Leads Again

During the past few years a great deal has been written and said about the standardization or unification of schedules of fees for fiduciary service. It has fallen to the lot of our southern city, New Orleans, to make a schedule effective by imposing a fine for deviating from the fees agreed upon.

At a special meeting of the New Orleans Clearing House Association, held on May 14, 1923, a report dated May 9 from the Committee of Trust Officers of Banks and Trust Companies, was unanimously adopted. It reads as follows:

"We recommend to the New Orleans Clearing House Association the adoption of fixed charges for the following:

Payment of interest coupons by trustees and/or paying agents, one-fourth of 1 per cent. of amount distributed.

Payment of called or matured bonds, one-sixteenth of 1 per cent. of amount distributed.

It is understood that there will be no charge for paying coupons or bonds, in cases where the money is deposited with the trustee and/or the paying agent for thirty days or more prior to interest or maturity period, provided that the money be deposited in a special account in the Trust Department for the specific purpose of paying coupons and bonds.

It is further understood that there will be no charge for paying coupons or bonds of the State of Louisiana (political sub-divisions thereof excepted) and of the City of Orleans.

It is also understood that where no charge is made at the present time, the trust company shall begin the charge when and if this recommedation goes into effect.

For the certification of bonds by trustees:

$1000 Bonds	$1.00 each
500 Bonds	.50 each
100 Bonds	.25 each

The minimum charge to be $100.

The committee suggests that a fine be imposed upon any bank or trust company violating any of the above rules."

It was decided at said meeting that the provisions of this report become operative July 1, 1923, on old issues and immediately operative as applied to new issues.

It was also decided to impose a fine of $500 for violation of any of the provisions contained in said report.

Pre-War Standards

We must get our minds away from the notion that pre-war standards of living and volume of business would be normal now. Normalcy is a vastly higher and more comfortable standard than 1913. We must not judge the state of business activity by pre-war figures, but by a hugely increased base. We must not be frightened when our output of steel or textiles or automobiles, lumber, corn or hogs, or our car loadings amount to figures far in excess of those that would be implied alone in a normal growth of population.—Herbert Hoover.

Thomas B. McAdams, Vice-President of the Merchants National Bank, Richmond, Va., and former President of the American Bankers Association, and George O. Walson, President of the Liberty National Bank, Washington, D. C., have been appointed members of the Public Relations Commission of the Association.

SAVINGS BANK DIVISION

Summer Plans for the Savings Bank

THE seasonal changes in the work and interests of the savings banker are very noticeable at this time of the year. In addition, this year the savings banker has a special responsibility in view of the reaction from another "peak" in industrial and business activity.

A few plans of varying importance to savings bankers are as follows:

Graduation Time

First, the end of the school year should be featured at once by the creation of a new business contact with those pupils in school savings banking systems who will not return to school next fall. This is a great time for every such youth. It is the duty and also the opportunity for the banker who has been privileged to serve as the school depository to offer his service and then to give real constructive advice to each of his former pupil depositors. The means for obtaining such contracts are well known and are far more personal than newspaper advertising.

Unfortunate is the bank which has not availed itself of the convenient methods for segregating the individual deposits of pupils so that it cannot ascertain both easily and quickly the names of those pupil depositors with whom it will lose its relationship unless prompt action is taken at this time.

Graduation from the school department of the bank to the adult department can be made an important event to the school graduate for reasons which are obvious to most savings bankers although there are two or three banks in the country which still believe to the contrary.

Plans for the September opening of the school savings banking system should be completed at once while the experience of the past year is fresh in mind. Little consideration can be given to such matters during July and August.

School "Bank Day" Every Week

Second, arrange for continuing the school "Bank Day" each week during the summer vacation, if it has not been done already. A suitable number of pupils who have served as cashiers or tellers in the rooms should be designated by the teacher and invited by the bank to be at its window during one of the specified days. This is one of the various phases of school banking which are explained in detail and illustrated in the book on "School Savings Banking."

Industrial Savings Method

Third, every wage earner should be urged to arrange for systematic saving and depositing of a part of the amount due to him on each pay day. Whenever and wherever an establishment is found in which no appeal for thrift and saving has been made both consistently and constantly a method should be adopted for immediate installation. For this purpose the Savings Bank Division is prepared to recommend a convenient method which is handled through the pay roll but which provides the depositor with the direct and confidential relation to the bank which he usually desires.

Referring to the situation in the building and other industries, the president of a steel company stated in a Youngstown despatch of May 22 that "the situation is one which counsels prudence on the part of workmen. It is a good time to keep steadily on the job and avoid extravagance and unnecessary purchases."

Consistency

The old discussion as to whether Christmas Clubs are within the proper scope of savings bank service, has recently been revived by an attempt to extend this thrift club idea into a field of merchandising for an article which may be a necessity for some but a luxury or absolute extravagance for many. The great majority of bankers have resisted a recent effort not only to sign their names to the publicity but to have them pay for the advertising space. Threats to withdraw large deposits usually fell on deaf ears. The idea that a savings account should be controlled by the salesman of a luxury through the device of a joint account, does not appeal generally to those professional savings bankers who spend their lives in the promotion of thrift and preaching the general utility of a savings account.

The Executive Committee of the Savings Bank Division has taken a definite and unanimous position on this matter and takes pleasure in calling the general attention of savings bankers to the statement which was approved at the recent meeting of the Executive Council of the American Bankers Association that it "looks with disfavor upon any attempt by corporations or private business interests to pervert the whole established plan of savings for the purpose of stimulating sales for commercial gain by creating a debt under the guise of thrift."

Mutuals in Convention

The Fourth Annual Conference of the National Association of Mutual Savings Banks was held in Buffalo, June 5 to June 8, inclusive. The program included three business sessions, gave recognition to the splendid work of the women's division and included a golf tournament, banquet, grand ball and provided for return to the Atlantic seaboard by way of Niagara Falls, Toronto and the St. Lawrence River to Montreal.

The general subjects and speakers at the three business sessions were, "What Do We Lack?" S. B. Lloyd, Philadelphia Savings Fund Society; T. F. Wallace, Farmers and Mechanics Savings Bank, Minneapolis. "What Progressive Banks are Accomplishing in Improving the Operation of Their Institution." C. J. Obermayer, Greater New York Savings Bank, Brooklyn; H. P. Gifford, Salem 5¢ Savings Bank, J. M. Satterfield, American Savings Bank, Buffalo. "Conservative Progressive Thought in Developing the Field of Investment," G. S. Stevenson, Society for Savings, Hartford, J. H. Soliday, Franklin Savings Bank, Boston.

The Labor Banks

The adaptation of the mutual savings bank idea to a capital stock plan of organization and control, under the auspices of certain labor unions, is attracting considerable attention. A substantial increase in the amount of savings deposits may be expected to result from this special appeal to well defined groups by persons which have had much experience with methods and phrases which stimulate a feeling of class distinction.

In general the so-called labor banks are organized on the theory that the capital stock is a guaranty fund strictly limited in its earning power (usually 10 per cent.), that the officials should receive a "fair compensation" as "stewards" of their depositors' money, and that other earnings should be distributed to depositors. Savings depositors are paid interest from date of deposit to date of withdrawal. In 1922 the Cleveland bank paid 4 per cent. regular interest and 1 per cent. extra on savings, and 8 per cent. to stockholders. A special feature is made of small loans where adequate security is offered. No loans are made to officers or directors.

A Mortgage Exchange

The proposal to establish a market for the re-sale of mortgage bonds through the medium of an "exchange" to be established in New York City on the model of the stock exchange, is a matter of considerable interest to savings bankers. It has not yet been made apparent that this whole idea is feasible even now when the number of widely distributed mortgage bonds usually is undoubtedly greater than ever before.

The potential value of such an exchange is obvious so far as the savings banks are

concerned, although it can easily be exaggerated. Such value to the ordinary small investor might be found in his being supplied for the first time with an index of values such as does not now exist.

It might be expected to supply him with definite proof that mortgages are not all alike, especially when the only security back of a big issue of "mortgage bonds" may be nothing more tangible than site value and a hole in the ground.

Mortality of Accounts

We are indebted to the Savings Banks Association of Massachusetts for discovering a tabulation by a mutual savings bank in an average New England town, which we hope will result in many comparisons in all parts of the country of which this Division requests advice. Executive Manager Sylvester relates the experience as follows:

"Regardless of the number of accounts opened during a six months' period, 85 per cent. to 90 per cent. of the accounts were open at the end of the period. At the end of the next six months about 70 per cent. were open. At the end of one year about 60 per cent. were open; at the end of 18 months about 55 per cent. were open; at the end of 3 years about 50 per cent. were open and then it rather steadily declined 2 per cent. to 3 per cent. of original number each year and at the end of ten years about 25 per cent. of the accounts are still open. After that the changes are very small—mostly on account of death."

Postal Savings Increase

The Post Office Department announces a total increase in postal savings deposits during the month of April of $75,000. The balance on deposit on April 30 was $132,255,000.

The cities showing the largest increases during the month of April were New York, Boston, Chicago, Philadelphia, Uniontown and points in or near Montana. Substantial decreases occurred in Seattle, Pittsburgh, Detroit, Los Angeles, Cleveland, Milwaukee, Portland (Oregon), Louisville, New Orleans, Miami, Youngstown, Spokane, Providence, Pensacola, Memphis, and smaller offices.

Numerous inquiries have been received for information on the school and industrial savings systems which may be adopted by the Post Office Department. The industrial savings system of the Post Office Department was first installed in Toledo, a city where it was recently discovered by the Chamber of Commerce that the number of savings and thrift club accounts exceeds the total population.

We are advised that the school savings system has been formulated but has not yet been approved by the Postmaster General.

British Savings Banks

The inspection committee of the trustee savings banks in Great Britain give preliminary figures for November 20, 1922 as follows:

Number of depositors 2,231,254 with cash deposits of £75,785,035.

Of these depositors, 290,821 own government stocks and bonds deposited with the savings banks amounting to £30,415,192 of which £2,986,301 was held on account of special investments.

The report says that "at one bank the rate of interest yielded the depositors was raised to the statutory maximum of 2½ per cent. with excellent results, as the funds increased by 38 per cent. during the year.

"The experience of savings banks, during the past year has been varied and to some extent uncertain, owing to unemployment, short time, and bad trade; but on the other hand, their business has improved, especially in Scotland and Ireland, owing to the low rate of interest allowed on deposits by commercial banks, now only 1 per cent."

Monthly Tendency in Saving Deposits

An increase in savings deposits of .3 per cent. during the month preceding May 1, 1923 and of 9 per cent. during the preceding year is indicated by 896 banks which hold about one-third of the savings deposits of the country, according to tabulation of the Federal Reserve Board:

Federal District	No. of banks reporting	May 1, 1923 Millions	Apr. 1, 1923 Millions	Per cent. Increase over last Month	Savings Deposits May 1, 1922 Millions	Per cent. Increase over last Year
1	64	1,173	1,165	.6	1,092	6.9
2	30	1,820	1,825	.2	1,700	6.5
3	80	453	449	.7	426	5.9
4	18	418	415	.7	376	10.0
5	93	290	287	1.03	262	9.6
6	98	208	206	.9	182	12.5
7	209	838	834	.4	755	9.9
8	35	126	126	.00	111	11.9
9	15	88	87	1.13	79	10.2
10	62	100	100	.00	90	10.0
11	118	89	88	1.12	75	15.7
12	74	890	885	.5	760	14.5
	896	6,499	6,474	.3	5,914	9.0

Automobiles and Thrift

"I sometimes think that that little word 'Thrift' has been exterminated and abolished from our vocabulary," said Herbert Holmes of Yazoo City, addressing the Mississippi Bankers. "The automobile seems to have taken the world by the tail and run away with it. The automobile privilege has been abused, both by the seller. People are urged to purchase pleasure cars these days who do not own their homes or other property, and some of whom make only a moderate living, and our sons and daughters who grow up and marry, instead of working and saving for a home and other necessaries of life, save to purchase a pleasure car, never seeming to think what their position or condition might be when they reach a mature age."

Unveiling Alexander Hamilton Monument, Washington, D. C.

NATIONAL BANK DIVISION

Condition of National Banks

REPORTS received by the Comptroller of the Currency showing the condition of National banks on April 3, 1923, indicated great commercial activity during the three months' period ending at that time. Loans and discounts of the 8229 national banks amounted to $11,667,959,000, an increase since January 1st of $68,000,000, and of $385,000,000 during the last year.

Demand deposits amounted to $9,444,903,000. This sum shows a reduction of $395,000,000 for the three months period ending on April 3rd, though it marked an increase for the year in the amount of $783,000,000. Time deposits totaled $4,580,000,000 and these, too, increased $742,000,000 during the year.

The capital stock of National banks was $1,319,144,000, showing a slight advance. Surplus and undivided profits amounted to $1,553,824,000, this sum being $9,000,000 in excess of that reported a year ago.

Circulation carried by National banks amounted to $728,776,000. This, too, shows a slight increase, it being $8,000,000 more than a year earlier.

The percentage of loans and discounts to total deposits was 68.49 compared with 66.59 three months earlier, and 73.31 one year prior thereto.

The volume of United States Government securities owned by National banks increased since January 1st by $37,000,000 to $2,694,000,000. Other bonds, stocks and securities show a reduction for the last three months.

The New Comptroller

The appointment of Henry M. Dawes, who assumed the duties of the Comptroller of the Currency on May 1st, brought to that office a man conversant with and a part of the business life of America. He is the fourth member of his family to be called to National public service. His father, Rufus R. Dawes, and his brother, Beman G. Dawes, both represented their home district in Ohio in Congress. Another brother, Gen. Charles G. Dawes, served as Comptroller of the Currency in the McKinley Administration.

The new Comptroller is a native of Marietta, Ohio. He graduated from Marietta College and then entered the lumber trade with his father, continuing in the management of that business after the death of the latter in 1900.

In 1906 he removed to Chicago and engaged in public utilities work. He is interested in a number of such institutions, and was president of the Southwestern Gas and Electric Company, and an officer in several other companies. Also, he was a director in the Central Trust Company of Illinois, and the Drovers National Bank, Chicago. His thorough business training, coupled with his knowledge of banking practices, fit him well for the work just entered upon, and his administration is expected to be one of constructive accomplishments throughout.

Agricultural Credit

The Agricultural Credits Act created a Federal supervision offered to certain privately owned and operated agricultural and livestock financing corporations similarly as the Federal Government exercises supervision over national banks. It provided that upon meeting certain requirements such corporations already in existence may convert into National Agricultural Credit Corporations and also that others may organize as such immediately.

Something more than one hundred organizations of that nature, with capital of $250,000, the minimum requirement under the law, were known to exist. All of them were informed of the passage of the law and invited to place themselves under Governmental supervision exercised by the Comptroller of the Currency. Only one of them has made application for a Federal charter. It was rather expected that most of the requests would come from corporations already in existence and desiring to convert to Federal charters. However, it is just possible that some of them find it difficult to place themselves immediately in a position to meet the requirements of the Federal Government. After they have had an opportunity to re-arrange their business affairs with a view to meeting the demands which they did not originally foresee and which, therefore, had no bearing upon their operation, a considerable number of applications to convert may be filed.

Two other applications have been received for original charters. These are from groups of men who plan to place their corporations under Federal control immediately upon organization. One of these applications has been on file for a considerable time and following the investigation required to be made by the Comptroller the application for a charter was approved. So, within a short time it is expected that this corporation will be operating under the full regulation provided by the act and that others will take similar steps.

All of the corporations so far projected are ones with capital of $250,000, the minimum required. The other type of corporation, the one requiring a million dollars of capital and which is not authorized to make loans directly to borrowers, but to discount paper presented by other corporations, by co-operative associations and by members of the Federal Reserve System, has not been organized. It is hardly expected that such will be brought into being until after a considerable number of the smaller corporations are organized. With the exception of the provision against making loans direct to borrowers the functions of the re-discount corporations are the same as those of the first type mentioned.

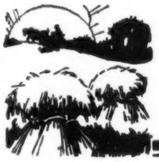
Federal Reserve Membership

Only a complete survey would disclose the attitude of non-member banks and trust companies toward the Federal Reserve System. It is significant, however, that under the provisions of the recent amendment to the Reserve Act lessening the capital qualification to 60 per centum of that required of national bank members no state banks or trust companies have enrolled. It should be said, too, that no concerted campaigns have been waged. Whether they feel that all the advantages offered by the Reserve System can be secured through member banks, whether they doubt that they could profitably employ the additional capital they would be required to set aside each year to bring their total up to that specified for national banks, or whether both of these factors act as deterrents, nobody has determined.

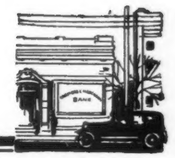
There is a feeling, however, that Congress viewed the limited memberships as due in part to the fact that the advantages of the system could be gained without making contribution to its upkeep. This view found expression in the Reserve Act amendment which, while making notes, drafts and bills of exchange issued by intermediate credit banks eligible for discount by Reserve Banks, added the proviso that such paper shall not be eligible for discount when it bears the indorsement of a non-member state bank or trust company eligible for membership. The effect of this limitation cannot be known until the credit banks become better established.

List of Members

A pamphlet containing a list of members complete to March 31, 1923, will be forwarded to each member of the Association in the near future. It is of special value in connection with the use of the confidential telegraphic cipher code. Members are requested to keep it conveniently at hand for ready reference.



STATE BANK DIVISION



State Bank Membership in the Federal Reserve System

THE subject of the membership of State-chartered banking institutions in the Federal Reserve System has been revived through certain provisions embodied in the new Rural Credits Act. Eligibility to membership in the Federal Reserve System is prescribed as follows:

"No applying bank shall be admitted to membership in a Federal Reserve Bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act, or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and, under penalty of loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph; Provided, That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase."

Under the provisions of the new law a joint committee of the United States Senate and House of Representatives has been appointed, consisting of Senators McLean of Connecticut, Weller of Maryland, and Glass of Virginia, and Representatives Dale of Vermont, Strong of Kansas, Wingo of Arkansas, and Steagall of Alabama. The joint committee thus appointed "is authorized to inquire into the effect of the present limited membership of state banks and trust companies in the Federal Reserve System upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible state banks and trust companies in failing to become members of the Federal Reserve System; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law, or in rules and regulations of the Federal Reserve Board, or in methods of administration, to bring about in the agricultural districts a larger membership of such banks or trust companies in the Federal Reserve System."

It is understood that the joint committee will submit to non-member State-chartered banking institutions a questionnaire substantially as follows:

1. What reasons have made it inadvisable for your bank to become a member of the Federal Reserve System?
2. What amendment of the law would you suggest to attract eligible state banks?
3. What regulations, if any, of the Federal Reserve Board or banks operate to repel eligible state banks and what changes would yo umake to insure membership of state banks?
4. What suggestions, if any, would you make with reference to the policy of the Federal Reserve System which in your belief would induce state banks to become members?
5. In your opinion what service or benefits do you procure outside of the system that you cannot get by becoming a member?

It is also understood that the joint committee plans to hold hearings at various points in the United States later in the year.

Co-operative Marketing Problems

The pamphlet on "Co-operative Farm Marketing" issued by the State Bank Division early in the year has been successful in several ways. The questionnaire contained in the pamphlet has elicited valuable information not only from bankers but from farmers themselves and the agricultural departments of various states. Two editions of the questionnaire pamphlet have already been issued and a third edition will doubtless be required. The fact that the pamphlet treats the subject of co-operative marketing without prejudice, both from the viewpoint of the farmer and the viewpoint of the banker has given it a standing that no ordinary propaganda could have attained. The pamphlet is being used as a campaign document in the organization of several co-operative marketing associations in various sections of the country. Not the least significant feature of the pamphlet is the acceptance among farmers of the slogan to "Put Agriculture on a Par with Other Big Business" and to make clear the essentials of co-operative marketing finance.

With the exception of a few co-operative marketing associations that have been in existence a number of years, such organizations have their problems. An Arizona banker says:

"We have, in the Salt River Valley an area of 240,000 acres, about a dozen different commodity organizations, each designed to handle the marketing problem in connection with a specific commodity. The principle of one-man, one vote, is established in each one of these organizations as well as an irrevocable five-year contract binding the grower to deliver his commodity to the Association. Our attorneys have passed on the sufficiency of the several contracts and have pronounced them valid.

In practical operation the Cotton Association has been the outstanding feature because of its larger membership and scale of operations as well as the fact that it has been in existence two full years. The benefits of its operations have, as a result, been more clearly demonstrated to the community. During the year 1921 the Association had a credit of $1,500,000 with the War Finance Corporation, of which it actually used about $700,000 at the peak. In 1922 the Association was financed through the Harris Trust and Savings Bank of Chicago, on acceptance credit commitment of $1,200,000, of which only about $600,000 was used at the peak.

"In general the principle of co-operative marketing seems to be well grounded among the farmers of the Salt River Valley. Naturally there are quite a number of farmers here, as elsewhere, who are perfectly willing to have everyone else tied up under contract and, through co-operation, stabilize the market, provided they are individually left to operate on the outside to their own advantage. This tendency will, no doubt, decrease as fast as the farmers become educated to the benefits of real co-operation."

Second Mortgages as Collateral

Hon. Marshall Cousins, just before his retirement as Commissioner of Banking of the State of Wisconsin, cautioned banks against the acceptance of second mortgages as collateral security for loans. "When a second mortgage is offered as collateral there are several things to be considered," said Mr. Cousins.

"(1) Does the second mortgage give adequate protection upon the proposed loan?

"(2) Does the mortgage offered, together with the prior mortgage, exceed in amount the limit which the bank could invest under the law in one loan?

"(3) Is the value of the premises covered by the mortgages sufficient to give a safe and satisfactory margin over the mortgage indebtedness?

"Many second mortgages are offered which leave no margin between the amount of the mortgages and the value of the property and oftentimes the borrower has obtained a loan from an individual upon a first mortgage for the extreme percentage of the value of the premises which an individual feels satisfied in accepting."

CLEARING HOUSE SECTION

Richmond, Va., Enlarges Scope of Its Credit Bureau

IN the July, 1922, issue of the JOURNAL, there appeared a working plan giving the full operations of the credit bureau in connection with the Richmond Clearing House Association. Those who read this article, may recall that when banks were interested in knowing whether a customer applying for a line of credit was borowing from some other institution, member of the clearing house, they sent their Form No. 1, properly filled out, to the secretary of the clearing house association, who in turn filled out his Form No. 2 and forwarded it to all members of the local association, receiving within three or four days the information asked for by the inquiring bank. This system, although a little slow, worked splendidly and produced effective results.

In order to render better service by getting the information quicker, this bureau of credits was enlarged upon. Under the new arrangement, every local bank furnishes the secretary of the credit bureau with a white card for each name on their liability ledgers. These cards are forwarded to the secretary daily, thus enabling him to have a complete and up-to-date file of every borrower doing business with the banks in the city of Richmond. Each card bears the name of the borrower and the code number of the bank reporting the same. The cards are filed in alphabetical order in a fire-and-burglar-proof cabinet. No one has access to the file but the secretary, who is in absolute charge of this bureau.

The file contains a list of names of every borrower in the banking institutions of that city. Whenever a duplication of names occurs, due to the party borrowing money in two or more banks, the secretary removes the white card and substitutes therefor a salmon colored card with the name of the party, together with the several code numbers representing the banks granting lines of credit to said party.

This system enables the secretary immediately to obtain from the bank or banks, the total amount of all loans secured or unsecured or any other liabilities in a minute's time when any member may be interested in ascertaining how much money has been borrowed by an applicant and from how many banks. The secretary in giving this information never divulges the name of the banks granting these lines of credit. He gives only the total amount borrowed and the number of banks from which the money has been borrowed.

Whenever a line of credit extended to a party expires at a bank, that bank immediately furnishes the credit bureau with a yellow card giving the name of the party as well as the code number of the bank. Upon receipt of this yellow card, the secretary removes the white card from the credit file and places it in the dead file. At the same time he erases the code number on the salmon card, providing the party has a line of credit at more than one bank.

Under the present arrangement it is possible for a bank to 'phone the secretary at any time to ascertain whether an applicant for accommodation is borrowing at one or more banks, and in a very few minutes finding out just how much money has been borrowed by the applicant for the loan. Incidentally this card system enables the credit bureau to check only those banks reporting the name of the party under investigation so it is not necessary for the secretary to write each bank in the city as he did under the former system.

The Secretary of the Section will be only too glad to assist the manager of any clearing house association in the country to bring about the establishment of such a credit bureau.

Co-operation Through a Clearing House

An ideal clearing arrangement, was perfected at a dinner and meeting held Tuesday evening, May 8, at Derby, Conn., when the officers and directors representing the banks and trust companies of four cities, Ansonia, Derby, Seymour and Shelton, within a radius of seven miles, formed a Four-City Clearing House Association. The biggest problem to overcome was the fact that the group of banks, members of this association, are located in two different Federal Reserve Districts, namely, Boston and New York. Articles of association and by-laws were drawn and adopted, and read in part as follows:

"We the undersigned banks and trust companies of Ansonia, Derby, Seymour and Shelton, do hereby associate ourselves together for the purpose of facilitating the transaction of business between ourselves; fostering and furthering conservative banking practice; using our influence in matters of common interest to one another and for the general good of the community, and of performing such other services as are agreed upon by ourselves which are not in contravention of Federal or State laws."

"Article 1. The name of this Association shall be The Clearing House Association of Ansonia, Derby, Seymour and Shelton."

"Article 5, which pertains to exchanges is as follows:

"Each member bank clearing its checks through the association, shall at the close of each business day, mail direct to the other members, all items drawn on them, and at the same time advise the manager on the daily sheet adopted by the association, the amount of its items sent to the other banks. From these daily sheets, the manager will make up the clearing settlement sheet and determine how payment is to be made. He shall then notify by telephone the banks that have credit balances, of the amount and to which bank settlement is to be paid. The amount so due shall be sent direct to the New York or Boston correspondent, which has been designated a clearing settlement bank for the credit of the member being paid, these funds becoming available the following day. The time for clearing exchanges shall be nine o'clock in the morning of each business day. All checks, drafts, coupons matured or any other strictly cash items, shall pass through the exchanges. Sight drafts, notes, ohecks previously protested, and other like matters shall not be included but settlement may be made through the exchanges by the use of the charge ticket or such other method as may be agreed upon.

"All items received by any member in the exchanges of any day shall remain the property of the respective members which sent the same and shall be held in trust only by the member so receiving the same, until all the balances arising from the exchanges of the day are paid or until checks or vouchers are returned unmutilated.

"All matter passing through the exchanges shall bear the written or stamped endorsement of the member for whose account it is cleared."

"Article 12—Changes in recognized practices. No member shall make any radical departure from the present practices observed by the member banks in the conduct of its business which may work to place any of the other associated members at a disadvantage, until notice of its intention of making such change has been given to the association and the matter dscussed at a regular or special meeting."

This is a most satisfactory arrangement and one which will benefit the banks in that section materially. It also shows the splendid spirit of co-operation existing between the members of several thriving and growing communities where competition is quite keen. Not only the banks will be benefited by membership in the association but the community will be better served.

We should like to see other towns located but just a short distance apart from one another, follow the plan adopted by this Four-City Clearing House Association, or the Tri-City Clearing House Association of La Salle County, Ill., which is serving the three cities of La Salle, Oglesby and Peru in La Salle County, Ill., in a like manner.

R. E. Chambers, cashier of the Ansonia National Bank, Ansonia, Conn., and an active member of the American Institute of Banking, was the prime mover in bringing about the clearing house association for the four cities. He was honored by being elected president of this new association. Charles A. Post, assistant cashier, Birmingham National Bank, Derby, Conn., was elected secretary.

If you are interested in such an association for your community, communicate with the Secretary of the Section.

To Take Turmoil Out of Tariff-Making

By PHILIP G. WRIGHT

A Suggestion in Schedule-Making Offered As a Measure to Mitigate Some of the Inevitable Evils Attendant upon Preparing New Tariff Bills. Let the Commission Make the First Draft. Many Interests Work for Increases When a Bill Is Being Prepared.

THE United States Tariff Commission at present is engaged in making cost studies both at home and abroad with reference to its recently acquired function of adjusting rates of duty so as to equalize costs of production. In my article in the May issue of the JOURNAL I pointed out some of the difficulties of the task which Congress has entrusted to the Commission—difficulties which would seem to render the task impossible of fulfilment in any literal sense. It may, as a result of its investigations, be able to arrive at figures in many instances which, without too strained an interpretation, it may designate foreign and domestic costs of production, and hence fix rates which may prove more satisfactory to the business world than the present rates. In any event, as a result of the experiment the Commission will acquire a vast body of data in regard to foreign and domestic conditions of industry which will prove invaluable to it in handling any subsequent tariff problems which Congress may submit to it. Moreover, it will gain experience as to its limitations and possibilities which may greatly increase its efficiency. The experiment is well worth the trying.

The Present Act Not Final

However, nobody expects the Act of 1922, with such modifications as the Tariff Commission may make, to be the last word in tariff legislation. Even were it possible literally to adjust all rates so as to equalize costs of production, the result would prove unsatisfactory. Good public policy may require that some article should have rates much higher than the equalizing cost and other rates much lower. It may prove desirable to place articles now dutiable on the free list and to make articles now on the free list dutiable. A political party representing a tariff policy wholly different from that of equalizing costs may become the majority party in Congress. Sooner or later there will be another tariff revision, and the question arises whether or not an inprovement can be made over the methods that have in the past prevailed and, specifically, whether in subsequent revisions of the tariff the Tariff Commission may not with profit play a more active part than hitherto.

Dissatisfaction with Past Methods

There is demand for improvement. The popular phrases, "Take the tariff out of politics," "Let business men make the tariff," and the like, are witnesses to this demand. The odium which in America attaches to the very word "politician" is due in no small measure to the methods hitherto prevailing in framing and passing tariff bills. Indeed the fact that the Constitution has been stretched to give the Tariff Commission its present powers is evidence of widespread dissatisfaction and an impatient desire to get the tariff out of the hands of Congress altogether.

Power Is with Congress

The transfer of legislative power would require a Constitutional amendment but that the people on sober second thought will consent to place the final enactment of such an important revenue measure as the tariff in the hands of any government agency not directly responsible to them at the polls is too unlikely to call for serious discussion. The Constitution lodges legislative power in Congress without authority to transfer it to anybody else. Such a change, therefore, could not be made without a Constitutional amendment and any likelihood of such an amendment may be dismissed.

The Plan Proposed

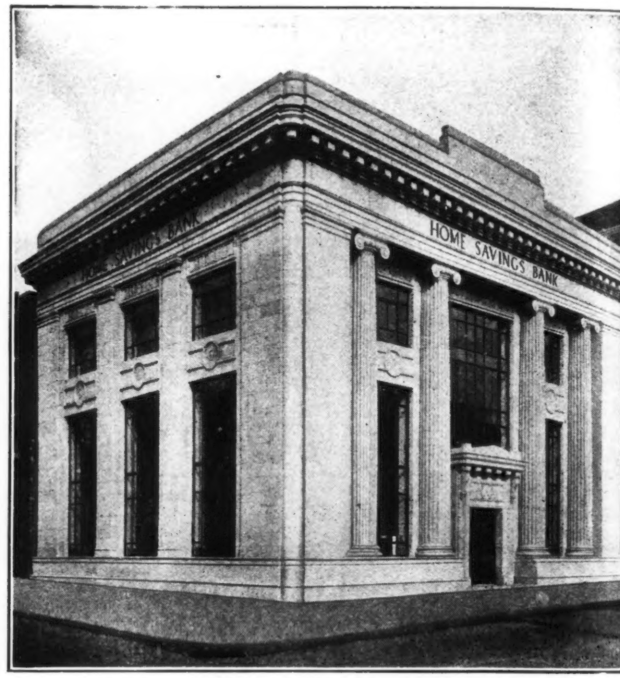
It is therefore a waste of space to discuss any such proposition as that of taking the tariff-making power away from Congress and turning it over bodily to the Tariff Commission. But, it is conceivable that the commission might with advantage have its powers enlarged. One such possible enlargement of power it is the purpose of the present paper to discuss. Let the commission be granted authority to draft a complete tariff bill, arranging the classification and affixing rates of duty to all the articles in all the schedules. In order to make the bill conform to the wishes of the people as reflected by the majority party in Congress, it should receive from the Chairman of the Committee on Ways and Means certain instructions covering the general line of tariff policy to be observed. Clearly, in a representative form of government, the people themselves as shown by their action at the polls should be the final judges on such broad questions of public policy as free trade or protection, a general revision upward or downward, a tariff for revenue or for national self-sufficiency. The commission, for example, might be instructed to draft a bill which should, so far as could be ascertained, equalize competitive conditions between domestic and foreign producers, with the further instruction that raw materials, unless good reason could be shown to the contrary, should be placed on the free list and that articles which were the product of "key" industries should be given rates so high as to give practically the whole domestic field to the American producer. Were the majority in Congress of a different political philosophy, it might instruct the commission to abandon the policy of protection and to make the basic principle a revision of the tariff downward with a view to ultimate free trade, existing industries to be disturbed as little as possible in the process; or revenue might be made the basic principle with instructions to make the rate on luxuries relatively high and the rates on necessities relatively low; or national self-sufficiency, or some other principle might be made basic. In short, the commission on entering upon its task should know, in a general way, the character of the bill expected from it, as does now the Committee on Ways and Means. Having drafted the bill the commission should submit it to Congress for amendment and final enactment, each paragraph being accompanied by a concise statement giving the reasons for the rates therein provided. In drafting the bill the commission should rely chiefly, if not exclusively, on the investigations made by its own experts. At some stage before its final enactment by Congress, however, public hearings should be granted. By the general plan above outlined the commission would become the equivalent of a permanent Committee on Ways and Means entrusted with the duty of making a first draft of the bill.

Absence of National Viewpoint

Such a plan offers many advantages which can best be brought out by noting the defects of past methods. One of the chief defects has been the absence of a national viewpoint. Rates have been fixed, not so much with reference to the public good as because they are demanded by some private or sectional interest; they are fixed to favor private or sectional interests because members of Congress know that if they did not they would not be members of Congress.

Since a member of Congress knows

"A HANDSOME ADDITION to the COMMUNITY"



Gray speckled matt glazed Terra Cotta — HOME SAVINGS BANK BROOKLYN, N. Y. — Gustave Erda, Architect

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that he cannot secure the rates demanded by the interests upon which his official life is dependent unless he is willing to grant like concessions to others, it follows that in the framing of a tariff bill rates in the case of commodities backed by powerful interests must be adjusted to one another by a process of mutual accommodation and compromise popularly known as "log-rolling." Since states or groups of states have their dominating industries a further corollary is the evolution of sectional pressures and "blocs."

Hence, in the case of commodities where powerful interests are concerned, a tariff is not framed in accordance with any thought-out philosophy of national welfare. It is simply the resultant of a struggle between conflicting interests in which the strongest get the most. It is this circumstance, perhaps more than any other, that has brought discredit upon Congress and aroused public sentiment to "take the tariff out of politics," which means presumably to take it out of the hands of Congress.

May Be Mitigated but Not Eradicated

But will the situation in this respect be better in the hands of any other body? The same great interests which are so potent in securing the nomination and election of senators and representatives will still be in the background if the Tariff Commission or any other body has the making of the tariff. They are business men, not sentimentalists, and since the tariff affects their profits, the securing of a favorable rate of duty is as much an item of routine business as is the hiring of a good buyer or a competent salesman. The frequently heard plea to take the tariff out of the hands of politicians and entrust it to a group of business men is pathetic. In important items the shaping of the tariff is in the hands of business men now. It may be taken for granted that great organized interests, such as the farmer interest, the textile interest, the pottery interest, the sugar interest, will use every effort to secure a sympathetic personnel on the commission and its staff, if the commission has the shaping of the tariff.

This evil, if evil it be, of pressure from private and sectional interests as dominating factors in adjusting rates of duty cannot be eradicated by transferring the tariff-making power from Congress to some other body. It is inherent in the very nature of protective philosophy. It was as manifest in the time of Hamilton as it is today.

Still, the evil, if it cannot be eradicated, may be somewhat mitigated if the plan outlined should be adopted. The commissioners are appointed for a long term of office and are likely to acquire considerable independence, whatever may have been their antecedents; their appointment is not by direct election from a more or less subservient constituency, but must be secured by appointment through the President, and Presidents have a way of developing a national viewpoint and a consciousness of the dignity and responsibility of their office. The fact that the membership of the commission cannot contain more than three men of any one political party may also prove helpful. The influence of the interests becomes even more attenuated when it comes to the commission's experts who make the actual investigations upon which the final findings of the commission must be based. On the whole there is much more hope of attaining a bill conceived in a national spirit in accordance with some consistent principle from the commission than from either the House Committee on Ways and Means or the Senate Committee on Finance.

Partizan Politics and the Tariff

Another evil which has developed in tariff making is due to partisan politics, and this evil may also be mitigated by transferring the drafting of a tariff bill to the commission. There is in reality less difference in principle between the great political parties with respect to the tariff than is generally supposed. The Republicans commit themselves more unreservedly to the principle of protection than the Democrats and when in power grant higher rates of duty. But both parties stand for protection and both parties use the tariff as a means of raising revenue.

As Democratic members are likely to represent different business interests and different sections of the country from those represented by Republicans, it is to be expected that the industries to receive tariff favors will be somewhat different under a Democratic tariff from what they will be under a Republican tariff. The difference is in degree, however, rather than any very vital difference in principle.

But the exigencies of party politics compel Republicans to attack a Democratic tariff and Democrats to attack a Republican tariff as disastrous to the national welfare. And as under either tariff there is certain to be much discontent, the attacks based on the tariff as well as attacks based on other sources of discontent are likely in the course of a few years to prove successful. The opposite party comes into power, and to keep party pledges must enact a new tariff, which is not likely to prove more satisfactory or permanent than its predecessor. Perhaps this constant overhauling of the tariff resulting from party politics is one of the worst evils of tariff legislation. The uncertainty and suspense accompanying the incubation of a tariff are worse for the business interests of the country than any tariff which would be likely to be enacted by either party. In this sense there is little doubt that it would be desirable to "take the tariff out of politics."

A tariff bill drafted by a bi-partisan tariff commission and based on the findings of commodity experts would be far less a vulnerable object for venomous partisan attacks than a bill drafted by a frankly partisan committee. It might remain for many years a basic tariff, subject to moderate changes made by the Tariff Commission in response to instructions from Congress in accordance with the changing needs of business or as the tariff philosophy of the majority should change from time to time. The tariff would thus acquire a character of permanence and flexibility, both to the great advantage of the business interests of the country. The modifications in rates proposed by the commission should in general, like the original bill, be referred to Congress for final enactment. Should the present experiment of a "flexible tariff" meet with some measure of success, it might be continued, but probably on a somewhat different basis from that of equalizing costs. The President might be authorized to proclaim any minor change recommended by the commission, and after the lapse of a reasonable interval of time and in accordance with a joint resolution of both Houses of Congress, which had previously been passed, the change would be understood to be acquiesced in by Congress and become law.

Classes Not Represented in Tariff Making

Another defect which would in a measure be remedied by the proposed plan is that there are large classes whose interests are not directly or adequately presented to tariff making committees. The House and Senate Committees which draft a tariff bill hold public hearings. At these hearings appear the representatives of manufacturers and other producers. The act that emerges is thus the result of compromise and accommodations among interests which, however much they may differ in other respects, have for the most part this one characteristic in common: all are desirous of securing high rates of duty on their respective products in order to maintain a level of prices which will yield them satisfactory profits. The "plain people," the great masses of wage earning consumers, who are interested in low rates of duty and low prices, are not directly represented. (1) True they are often referred to. The representatives of business interests claim to be much concerned for the welfare of the consumer, and in the same breath that they assert that their industries cannot survive without high duties, assert also that such duties will not raise prices. They also stress the argument that consumers are also producers and that protective duties will help them more as producers by maintaining high wages and affording

[1] By the above statement it is not meant to assert that low duties on certain articles and the free admission of others are not often advocated at the hearings. But such advocacy is by business interests which will be financially benefited by such a policy. The sugar refining interests and the American investors in Cuban sugar properties sent representatives to present the case for a reduction of the duty on sugar. A large section of the lumber trade asked for and obtained the free admission of lumber. The "farmer bloc" secured the free admission of potash and a low duty on molasses. Such conflicts of interest usually arise when the product of one industry is the raw material of another. More often an agreement is reached by granting a duty on the raw material and a compensatory duty on the finished product, as in the case of wool and woolens.

steady employment than they will hurt them as consumers. This is at least a debatable point. At any rate, this great mass of consumers, as such, have no one to present their case. It is fair to assume that the Commission, having a national viewpoint and less under the domination of private business, would weigh the effect upon prices and the burden upon consumers as an offset to the benefits to business, in establishing rates.

No Special Fitness for the Task

Finally, it may be asserted without any thought of discourtesy that the men who have made tariffs in the past have had no special expert fitness for the task. The individual members of the House Committee on Ways and Means and the Senate Committee on Finance are seldom chosen because of any expert knowledge on tariff matters. Their selection is more apt to be a matter of seniority or party expediency. They are able men, some of them extraordinarily able men, but to master the intricacies of the tariff and acquaint themselves with the pertinent facts in regard to all the hundreds of articles therein enumerated, all in the limited time which they can devote to the subject consistently with their other duties as members of Congress, would call for supermen. They have in the past been obliged to rely largely on the testimony given at the hearings—testimony confessedly one-sided and made by interested parties. In the Acts of 1921 and 1922 they had in addition the valuable commodity surveys and studies made by the Tariff Commission, and the benefit of personal conferences with the Commission's experts. But obviously a permanent commission made up of men devoting all their time to this especial task could handle this mass of material in the drafting of a tariff bill more expertly than an untrained, temporary committee.

Would Congress Enact the Bill?

The plan proposed, therefore, gives reasonable promise that a better tariff bill could be drafted by the Tariff Commission than by the Committee on Ways and Means. It should be more consistent to some definite political policy, more national in its viewpoint, less subject to violent partisan attack. It should give evidence of more expert workmanship and better adjustment of part to part. In short it should give more evidence of broad-visioned statesmanship and less of temporizing expediency. But when drafted, its final enactment must be left to Congress. To vest the enactment of such a measure with the President or Tariff Commission would be clearly unconstitutional, and even if it could be made constitutional by amendment, it would be an extremely hazardous policy to take the enactment of a great revenue measure out of the hands of a body directly responsible to the people. The crucial test of the plan, therefore, lies in the question whether Congress will enact such a measure when presented to it. On this point nothing positive can be said. If Congress choose to assert its undoubted power and reject or amend beyond recognition the bill which it has entrusted to the Commission to draft, the whole performance would become an elaborate farce. There is some reason, however, for thinking that Congress would not so act. It will probably prove very difficult to induce Congress to entrust this power to the Commission in the first instance, but having once done so it will hardly care to discredit its own act. In the second place there are known to be members of Congress who chafe under the pressure of the Lobby. Such members will welcome the relief which will come to them from throwing the responsibility of drafting a tariff bill upon the Commission.

The Federal Reserve System of Peru

By G. BUTLER SHERWELL
Washington, D. C.

Financial History Leading Up to the Establishment of the Bank. Exportation of Silver to Facilitate Circulation of Gold. Circulating Checks. Federal Reserve Act Modeled After the United States System. Maturity of Paper with Special Provision for Agriculture.

PERU is the first country in Latin America to have frankly initiated a course of procedure in re-organizing its banking system according to the Federal Reserve principles. By the enactment of the Federal Reserve Act of Peru, the present Government of that country has given a remarkable testimony of the willingness on the part of the people to give a great impulse to the development of the country's resources, along modern lines of financing. The Federal Reserve Act of Peru was modeled after that of the United States, with modifications such as the banking conditions and general financial situation of Peru suggested to the framers.

Irredeemable Paper

The period of irredeemable paper currency which Peru had to endure until 1887 was due, as in many other countries, to the carelessness on the part of the banks in handling the metallic reserves against notes in circulation and public deposits. According to the Peruvian banking law, banks of issue were required to keep in their vaults, as reserve against their note issues, one-third of the total amount of the bank's notes in circulation, and a subsequent law obliged the banks to guarantee their issues with a 30 per cent. metallic reserve and 70 per cent. of the total issues in bonds of the Government. However, no provisions were made in the law to regulate reserves against deposits, which differ considerably to those against circulation. Thus, in 1875, the total of notes in circulation, made legal tender in 1872, amounted to about 10,000,000 soles, [1]and total deposits in banks amounted to 6,000,000 approximately. Against this total of about 16,000,000 soles the banks held as metallic reserve only about 2,000,000 soles. After the fact was made clear that the banks were not able to meet their obligations, they applied to the Government for a moratorium, which was granted to them for a period of four months. The Government took upon itself the blame for the condition of the banks, stating that considerable loans had been made by the credit institutions to finance certain public works. This, however, does not appear to be so strong a cause for their insolvency as the fact that metallic reserves were entirely out of a safe proportion to the total note circulation and deposits. Several economists have given as a reason for the financial crisis of 1875 the fact that considerable amounts of money were permanently invested in public works and only small amounts in self liquidating investments, but it seems that errors along legislative banking and currency lines, as well as in the administration of the banks, were chiefly responsible for the crisis.

Unlimited Moratorium

On September 6, 1875, six days after the inconvertibility of the paper currency was declared, an unlimited moratorium was granted to the banks, and also the privilege of raising the total amount in circulation to 12,500,000 soles. The fall in the purchasing value of the unconvertible paper reached such proportions that on August 17, 1877, the Government took charge of the irredeemable issues and took the responsibility of paying them in the future. As a result of this action, the loans made by the banks to the Government were cancelled, but the total emissions were increased to 15,000,000 soles.

A law of January 27, 1879, prohibited the use of bank bills. It seemed, however, that notwithstanding the authorized increase of paper issued, the demand was greater than the supply, and the Government authorized the Compañía de Obras Públicas del Perú to increase the issue of notes from 1,000,000 soles to 5,000,000 soles. Increasing thereby the total issue to 20,000,000 soles. The result of this action was immediately reflected on the exchange and the value of the sol dropped to 18 pence from 23 pence. The situation was further aggravated by the declaration of war between Chile and Peru on April 5, 1879. Since then the Government issued paper currency in amounts sufficient to supply its needs, regardless of limit. Exchange continually dropped in response to the new issues and to the unsuccessful military operations against Chile and the total circulation reached 60,000,000 soles before the capture of Lima by the Chilean troops. Upon the establishment of the Chilean authorities in that city, an order was issued whereby silver coins would be used in the payment of taxes. However, after the re-establishment of the National Government in Lima, new paper issues were authorized which, added to the previous amounts, increased the total circulation to 86,000,000 soles.

At that time exchange had fallen as low as 2 pence to the sol. In 1887 the Finance Minister of Peru issued a declaration to the effect that the acceptance of paper money was not obligatory and Peru was thus freed from irredeemable currency. The Government proposed to redeem the outstanding issues by means of an internal loan bearing interest at 1 per cent. per annum. The proportion was fixed at 15 paper soles to one sol of the debt and, taking into consideration the rates of interest prevailing at the time and the exchange rates, the true value of the sol was reduced to 8 tenths of a cent gold, in virtue of the terms of the conversion scheme. The monetary system of Peru was then based on silver.

In 1897 the value of silver began to fall in Europe and the value of the sol suffered continuous fluctuations. Public opinion in Peru demanded the establishment of a medium of exchange with a fixed value. The result was that the mints were closed to free coinage by a law of April 9, 1897. The amount of silver in circulation was consequently limited to the amount then in existence, thereby making silver scarce and increasing its value.

Issue of Soles

On May 5, 1897, the Bank of Callao was authorized by the Government to issue 60,000 soles in coins of small denominations. On the other hand, the exporters did not look with favor upon any measures intended to increase the value of the circulating medium and their antagonism reached such a point that the sol was given a fixed value of 24 pence. In order to firmly stabilize the value of the sol, a decree was enacted on June 24, 1879, whereby payment of fiscal dues was allowed to be made in pounds sterling at the fixed rate of 10 soles to the pound.

Under this law, the value of the sol could only be increased a little above 24 pence, to offset the expense involved in the importation of pounds sterling. However, the depreciation of silver was frankly recognized at that time and measures were taken toward the establishment of the gold exchange standard. A law was passed on September 11, 1897, encouraging the exportation of silver in order to facilitate the circulation of gold. The enactment of this law marked the beginning of the gold règime of Peru, which was to remain in existence until soon after the outbreak of the world war in 1914. A gold coin was created by a law of December 29, 1897, and according to the law of December 14, 1901, the gold standard was established as the only legal standard in the Republic.

It must be noted, however, that the

[1] At that time the Peruvian sol weighed 25 grams; 900 thousandths fine.

Peruvian sol, although containing 25 grams of silver, 900 fine, like the 5-franc silver piece in France, was given under the new system a value equal to only about one-half of its original gold value. This fact was the cause of difficulties when silver bullion rose in price in 1906 to 33 pence per ounce, making it profitable to export the silver coins. Silver began to disappear from circulation and the Government prohibited its exportation and the melting of coins into bullion. Furthermore, a coin was created worth one-fifth of a pound. A law reducing the weight and fineness of the silver sol was under consideration when the price of silver dropped, and to compensate for the loss of the exported coins a special coinage of 1,500,000 soles was authorized.

Shortage of Currency

Soon after the European war broke out, a great shortage of currency developed in Peru. Gold was either being hoarded by the people or being shipped abroad in payment for imports, since the export trade of Peru showed a considerable decrease during the first months of the war. It became almost imperative to create some sort of paper currency to supply the monetary needs of the country. Under the pressure of the public, the leading banks organized the Junta de Vigilancia, to which they turned over gold, warehouse warrants, real estate mortgages, and securities of different kinds, as collateral for the issue of bank notes. In order to overcome the popular reluctancy to accept paper currency issued by banks, the notes were called circulating checks.

The issue of this new circulating medium was authorized by the law of August 22, 1914. According to this law, the circulating checks were to be withdrawn from circulation six months after the close of the war in Europe. The banks were authorized to issue circulating checks, payable to bearer in an amount not to exceed £ p 1,100,000. According to Article I of this law, the legal reserve against this issue was fixed at 35 per cent. in gold and 65 per cent. in real estate, warehouse receipts and mortgages. This part of the law was amended on October 1, 1914, when a new decree reduced the gold reserve requirements to 20 per cent. and the remaining 80 per cent. to be guaranteed as follows: 30 per cent. by mortgage bonds assessed at their face value; ordinary mortgages assessed at 75 per cent. of their face value; real estate owned by the bank assessed at 75 per cent. of its value, or warehouse receipts; and 50 per cent. by negotiable instruments acceptable to the supervising committee established by the law.

The committee is composed of two members appointed by the National Congress, another appointed by the President, a fourth by the banks and a fifth by the Chamber of Commerce of Lima. Authorization was granted to the banks to increase the issue of circulating checks by an amount not to exceed £ p 1,100,000 making thus the total issue £ p 2,200,000, and authorized the Savings Bank to issue circulating checks in an amount not to exceed £ p 300,000, making the grand total of the issue £ p 2,500,000 ($12,150,-000).

Lacked Elasticity

Although the circulating checks helped to a great measure in alleviating the immediate shortage of currency, they lacked the quality of elasticity and since they were strictly an emergency measure, special legislation was required for every issue.

Notwithstanding the fact that gold reserves against circulating checks exceeded legal requirements, these checks were not popular among the people, especially in the country districts where the population refused to accept them. Thus, the depreciation of these checks became inevitable, and in August, 1915, it was as high as 16 per cent. The situation was further aggravated by the rapid disappearance of silver coins from circulation, with the result that on August 1, 1917, the Peruvian Congress authorized the Junta de Vigilancia to print and issue paper currency in fractional denominations up to 5,000,000 soles in small notes of 50 centavo denomination and up to 500,000 soles of 5 centavo notes.

After the first three years of war in Europe, the excessive demands for raw materials, such as Peru was able to supply, made the trade balance swing heavily in Peru's favor and New York and London exchanges went to a considerable discount in that country. The situation was somewhat alleviated by the importation by Peru from the United States of a large amount of gold, a short time before gold exports from this country were prohibited on September 7, 1917. The gold reserves of Peru were thus substantially increased, since most of this gold found its way to the Junta de Vigilancia. Circulating checks were therefore covered by gold in a greater percentage than that established by the law.

Stabilization of Exchanges

A law of January 14, 1918, amended on September 16, 1918, authorized the Government to enter into an agreement with the United States and England, with a view to stabilizing exchanges. This law provided that banks under authorization of the Government could open non-interest-bearing credits to 3,000,000 pounds ($15,000,000) on duly verified export transactions and against deposits in gold dollars or pounds sterling made to order of the Junta de Vigilancia in the Federal Reserve Bank of New York, at the rates of $4,866, and £ 1.5 1/8 per Peruvian pound. Banks were authorized for the purpose of that law to raise the amount of circulating checks by 3,000,000 pounds and to complete their gold guarantee on actual circulating check issues by putting up all the gold of which they could dispose freely. Bank credits against the State continued to form part of their guarantee, but their responsibility to pay in full to the public at the date fixed for the conversion of checks in gold remained unaltered.

A convention between the United States and Peru for the purpose of stabilizing exchange was signed in April, 1918. According to the terms of this convention, the Federal Reserve Bank of New York and the leading banks of Peru organized under Government auspices as a syndicate, with a board supervising the exercise of their powers of note issue, entered into engagements providing for the issue in Peru of Bank notes, full legal tender, against deposits made in New York, on the basis of $5.01 1/4 to the Peruvian pound. Such deposits were to proceed from the exportation to the United States of Peruvian products, and to be limited to $15,000,000.

Improvement Temporary

The monetary and financial situation of Peru showed only a temporary improvement after the convention was signed, and it must be noted that since transactions in exchange were restricted only with the United States and England an active trading with other European countries was inaugurated. No silver was coined during 1918. However, the National Mint coined in 1918, 599,658 one-pound pieces and 2,800 one-fifth pound pieces, with a total gold value of $2,931,862. Notwithstanding the considerable amount of gold coined, metal was very seldom seen in circulation. This was partly due to the large quantity of paper currency of small demoninations in circulation, which amounted to $10,-882,282, on December 31, 1918. Another reason was that the high price of silver in 1918 gave origin to the practice of having the silver coins melted and exported as silver bars, since exportation of gold and silver coins from Peru is prohibited by law. On December 31, 1919, the circulating checks amounted to £ p. 6,804,904. This total increased since 1914 as follows:

December 31	Issued	In Circulation
	£ p.	£ p.
1914	1,979,606	812,158
1915	2,316,242	1,230,446
1916	2,304,665	1,259,453
1917	2,704,610	1,955,762
1918	5,109,870	3,533,194
1919	6,804,904	4,454,796

During 1919 the National Mint coined £ p 737,654 in gold, but the shortage of circulating media was becoming more and more acute and the credit situation was difficult. A considerable amount of circulating checks was being hoarded by the people due to the growing public confidence toward these instruments, then regarded almost as highly as gold. The situation was so serious at the middle of 1920, that several banks decided to import $3,155,000 in gold, against which circulating checks were issued by the Junta de Vigilancia upon receipt of a cable advice that the gold had been shipped. The gold reserve of Peru was thus increased, but a large volume of circulating checks were put in circulation at the same time.

Gold Reserves, 90 Per Cent.

Gold reserves against these issues amounted to over 90 per cent. On December 31, 1920, the total issue of circulating checks amounted to £ p 7,681,263 of which £ p 5, 936, 389 were in circulation. The gold reserves consisted of £ p 3,921,170 in Peru and £ p 2,899,999 in New York and London, making a total gold reserve against circulation of 94 per cent. Considering the high gold reserve against the total issue of circulating checks and the fact that the exchange value of the Peruvian pound had dropped in New York and London since the latter part of 1920, several persons suggested the lifting of the embargo on gold exports from Peru, which was established soon after the declaration of war in Europe on August 8, 1914. This suggestion, however, did not meet with the approval of the Government and most of the bankers, since for every pound exported a corresponding circulating check would have to be withdrawn from circulation, reducing thus the already limited amount of circulating media.

Conversion into Sterling

Early in 1921, the Peruvian Congress authorized the conversion into sterling of the currency guarantee funds deposited in New York at that time, which amounted to about $11,000,000. The purpose of the plan was to use the exchange profit resulting from this transaction in meeting certain financial needs of the Peruvian Treasury. The sterling amount was to remain in New York, the Government relying upon sterling exchange to return to par. Interest on the $11,000,000 amounting to $800,000 was to be transferred to Lima. This transaction was accomplished and the Junta de Vigilancia authorized a loan to the Government amounting to £ p 600,000, the profits of the operation.

A project for the establishment of a national bank in Peru (Banco de la Nacion) was introduced to the Peruvian Legislature early in 1921. According to the terms of the project, the proposed life of the projected bank would be 50 years, subject to prolongation. The capital would amount to £ p 10,000,000 divided into 1,000,000 shares of £ p 10 each. Of this capital, 20 per cent. would have to be paid up at the time of the bank's organization, the balance to be called as required by resolution of the board of directors, to be passed upon by a minimum of 80 per cent. of its members. Operations were to start as soon as the Government had subscribed and paid in 20 per cent. on the stock of the bank. The project met with considerable hostility on the part of the local banks and business men who did not wish to see the central bank of issue closely associated with the Government. A committee of the Chamber of Commerce of Lima was appointed to study the project and a report was rendered, calling attention to what was regarded as an insuperable obstacle to the establishment of such a bank, since the provisions for its establishment were not in accordance with sections XI and CLIX of the Peruvian Constitution. (1)

Toward the close of the year, the project was still being considered by the Government. The Minister of Finance in a statement issued in September, 1921, stated that the Government was absolutely determined to establish a national bank, either with its own resources or with the assistance of foreign capital, but the people's disapproval of the establishment of the national bank was so strongly manifested that a new project was drawn up in December, 1921, providing for the establishment of an institution to be known as the Banco de Reserva del Peru.

Suggested by American Mission

This plan is attributed to suggestions made by the head of an American financial mission in Peru at the time, in an effort to reconcile the points at issue between the Government and the bankers. The bank, as originally planned, would be one of issue and rediscount only, and would be under the virtual control of practical banking men, not subject to political influence. In point of fact, the circulating checks were in the nature of a bridge between the pre-war all-metal currency system of Peru and a modern elastic asset currency with a gold reserve. (2)

At the beginning of 1922, the inelasticity of the paper currency in circulation proved more and more to be a serious drawback in the commercial life of Peru. Gold was either held by the banks or hoarded by the people. The agitation for the establishment of a bank of rediscount and issue, free from political interferences, was so active that the project for the establishment of the Federal Reserve Bank of Peru was passed by Congress on March 8, 1922, and approved by President Leguia on the following day.

(1) These sections read as follows:

XI. No fiduciary currency shall be established nor made legal tender except in the case of war in which the nation may be engaged. Only the State may coin national currency.

CLIX. The issues of currency now in existence shall be subject to the legislation which authorized them, or which may subsequently be enacted; and in any event the metallic guarantee of the total issue shall be completed.

(2) The following statement of the condition of the Junta de Vigilancia, as of February 28, 1922, shows the liability of the Junta on circulating checks to the public:

(In thousands of Peruvian pounds)

ASSETS

Gold	4,213
Credits in London	2,630
Mortgages	180
Government securities:	
Rec'd from banks	147
Other	239
Other securities	51
Other assets	658
Total assets	8,118

LIABILITIES

Cheques circulares in actual circulation	7,218
Gold deposit certificates	144
Nickel coins in circulation	500
Due to banks	239
Other liabilities	17
Total liabilities	8,118

Personnell

The Federal Reserve Act of Peru was constructed in many respects after the model of the Federal Reserve Act of the United States. It provides for the creation of a Federal Reserve Bank in Peru. The directorate of this bank is to be composed of nine members, three of whom are to be designated by the Government and the other six are to be elected by the member banks. Of the three Government appointees, one will be selected as the president of the Board of Directors and another to serve as vice presidents. Both must be citizens of Peru. A tenth member is to be appointed in case the Government should decide to establish a fiscal agency abroad. This office, however, may be abolished at any time by the unanimous vote of the other nine members of the board.

Authorized Capital

The Act provides that the Federal Reserve Bank shall take over the assets and liabilities of the Junta de Vigilancia and also those of the Caja de Depósitos y Consignaciones; an institution organized by the most important banking institutions in Peru with the object of receiving deposits from governmental and judicial sources and making loans to the Government to be reimbursed by tax receipts. This institution also acted as a clearing house for the banks.

The authorized capital of the bank, chartered for 25 years with power to prolong, is £ p. 2,000,000 divided into 200,000 Class "A" shares and Class "B" shares, all of £ p. 10 each, Class "A" shares to be owned by the member banks. Every bank organized in the country, as well as every branch of foreign banks established in Peru, is eligible as a shareholder of the Federal Reserve Bank subscribing for Class "A" shares. New banks will also have to subscribe to the capital of the bank in an amount equal to a tenth part of their initial capital. Shares of Class "B" are to be offered to the public. They do not confer the voting privilege.

For the election of the Board of Directors of the Reserve Bank, the shareholding banks are divided into three groups, each one of which elects two members. The first group comprises those banks with a minimum capital of £ p. 250,000; to the second group belong the banks with a capital of less than £ p. 250,000; while the third group comprises the branches of foreign banks operating in Peru. According to the provisions of the Act, the Board of Directors is charged with the supervision of the business of the bank and is empowered to appoint the manager and other employees, to fix their powers, duties and salaries, and to discharge them at pleasure; to adopt by-laws and to exercise such powers as may be deemed necessary to carry on the business of the bank, within the prescriptions of the Act.

Deposits and Discounts

The bank is authorized to receive deposits in gold, circulating checks, or any other lawful money, checks, drafts and bills of exchange, and also in maturing collections, notes and bills. Deposits in current account of shareholding banks may be counted as part of the reserve required by Article 185 of the Commercial Code. The bank may discount, with the indorsement of any member bank, negotiable instruments arising out of actual commercial transactions, and also paper secured by readily marketable products. The bank shall, however, not discount paper covering long-term or permanent investments, or issued for the purpose of speculating, trading in or holding investments. All negotiable paper must not have a maturity of more than ninety days, but paper issued for agricultural purposes may have a maturity of not more than six months. Total discounts of this paper, however, shall not exceed 20 per cent. of total discounts. The bank may discount acceptances and collateral notes of member banks having a maturity of not more than three months. It may sell and purchase, at home and abroad, from banks and first-class importing and exporting firms, cable transfers, bills of exchange and bankers' acceptances.

Broader Scope Than U. S.

When in the judgment of the Board the bank's cash reserves justify such operations, the bank may purchase, discount or advance against acceptances, commercial paper or promissory notes fully secured by collateral, even though they do not have the indorsement of a member bank. The provisions of this clause give the Reserve Bank of Peru a broader scope for open-market operations than that enjoyed by the Federal Reserve Banks in the United States.

The Federal Reserve Bank is authorized to accept deposits from the public without interest, to act as paying agent of the Government, and to deal in foreign gold coin and bullion at home and abroad, to make loans thereon, to exchange its own notes for gold and to contract for loans of gold, giving acceptable security. The bank may purchase from the member banks and sell bills of exchange and establish rates of discount for each class of transaction in order to facilitate commerce and industry. It may open accounts in foreign countries, appoint correspondents and establish agents, and buy and sell, with or without its indorsement, negotiable instruments arising out of actual commercial transactions, with not more than 90 days to run, collect bills of exchange through the same channels, and open banking accounts with foreign correthey do not have the indorsement of a spondents and agents. One of the first functions of the Federal Reserve Bank of Peru was the inauguration of the "clearing house" system among the member banks. The bank is prohibited from engaging in speculative exchange operations or from discounting paper based upon speculative transactions or issued for investment purposes, from making ordinary bank loans, and from making advances in current acount or permitting overdrafts.

Article 13 of the law gives the bank exclusive privilege to issue bank notes, but only for the purpose of exchanging them at par for the "cheques circulares" in circulation at the date of the promulgation of this law; of providing for the operations of rediscount and advances to the member banks, and for the purpose of mobilizing the deposits made in Peruvian coined gold pounds or gold in any other shape. Article 14 provides that the notes are not legal tender but are redeemable in gold or in dollar or sterling exchange, except that provisionally until the President of Peru at the request of the directors of the bank, shall decide that the international financial situation has become normal, gold redemption shall be suspended.

Reserves

Article 15 provides that the bank shall maintain in its vaults, as guarantee for its notes, Peruvian gold pounds or gold bars in the proportion of 7 grammes, 323 milligrammes of fine gold for each Peruvian pound, cash funds in dollars in New York, and in pounds sterling in London—gold and credits which shall in no case be less than 50 per cent. of the aggregate of the bank notes in circulation. As an additional guarantee of these notes, the bank shall hold notes, drafts, bills of exchange, acceptances or promissory notes, but such promissory notes shall not exceed 10 per cent. of the entire guarantee of the bank notes. The aggregate of the gold and of the funds in gold abroad, together with the bills discounted, shall not be less than the total amount of the notes in circulation.

According to the Act, the Reserve Bank will take over all the assets and liabilities of the Junta de Vigilancia and will redeem cheques circulares in reserve notes upon presentation. When gold redemption shall be resumed, the cheques circulares will be redeemed in gold and destroyed. In the meantime, cheques received in exchange for notes will be held for the purpose of being paid out for notes on demand. Cheques exchanged for gold or received as deposits will be destroyed.

Net Earnings

The Act provides that the net earnings of the Federal Reserve Bank shall be distributed as follows: 10 per cent. to be set aside as a reserve for contingencies; a cumulative dividend of 6 per cent. to be paid on Class "A" shares held by the member banks and of 12 per cent. on Class "B" shares held by the public; 2 1/2 per cent. of the net profits is to be distributed among the members of the Board of Directors; 2 1/2 per cent. to the benefit fund of the employees; 20 per cent. to a surplus fund until such time as said surplus shall be equal to the subscribed capital, and 10 per cent. thereafter; the remainder of the profits is to go to the Government in lieu of a franchise tax, and of all taxes on profits, on the issue privilege and on the bank notes themselves.

Important Differences

The most important differences between the Federal Reserve Act of the United States and that of Peru, outside of the fact that there are no regional banks in Peru, due to the small population and limited commercial activities in certain districts, are the wider scope of open-market operations that the bank in Peru enjoys, the separation of note and deposit reserves; and also that a higher reserve percentage is required in Peru, 50 per cent. instead of 40 per cent. in the case of notes, and 50 per cent. instead of 35 per cent. for deposits. Another difference of importance is that the Peruvian Act does not require that the member banks keep their deposit reserves with the bank, though the bank's deposits with the Federal Reserve Bank may be counted as part of its legal reserves. Furthermore, the Reserve Bank of Peru, by taking over the Junta de Vigilancia and the Caja de Depósitos y Consignaciones, starts business with large holdings of the Government and other securities.

The Federal Reserve Bank of Peru appears to be functioning satisfactorily, notwithstanding the fact that the bank has not done much, if any, rediscounting for the member banks. Interest rates have been reduced by the bank to seven per cent. on 30-day paper and seven and a half per cent. on 30-90-day paper. The following is a statement of the condition of the Federal Reserve Bank of Peru as of July 31, 1922:

ASSETS

Guarantee fund:		
Securities		Lp. 362,579.9.70
Funds deposited in London estimated in gold in accordance with Art. 15 of the law		2,043,961.5.81
Gold in coins and bars deposited in Lima		4,223,818.6.38
		Lp. 6,630,360.1.89
Compensation account:		
To convert into gold the guarantee funds deposited in London		185,420.3.05
Securities as guarantee for investments		230,980.0.00
National mint		19,775.5.00
Gold deposits as guarantee of certificates		77,176.7.20
Furniture and fixtures		3,040.8.45
General expenses		3,102.1.10
Cash on hand:		
Silver and subsidiary coins	Lp. 269.9.58	
Coined gold and certificates of the mint for Gold	7,039.3.86	
Notes	730,183.8.00	737,493.1.44
Total		Lp. 7,887,348.8.13

LIABILITIES

Capital:	
Subscribed	Lp. 716,890.0.00
Paid in	358,445.0.00
Note issues	6,785,913.7.00
Excess of guarantee	8,304.2.79
Accounts receivable	19,775.5.00
Interests and discounts	23,325.5.35
Exchanges	41,274.5.83
Certificates of deposit according to law No. 2429	77,176.7.20
Current accounts	573,133.4.96
Total	Lp. 7,887,348.8.13

It is to be regretted, however, that influences of official character have acted in a manner such as to hinder to a great extent the conservative and sound policies which the bank was intended to follow at the time of its organization. Such is the case in law No. 4527, of October 2, 1922, authorizing the issue of subsidiary coins in the amount of £ p. 2,300,000, to replace the paper one-sol and half-sol notes and the silver coins now in circulation. According to this law, the new coins will contain but 50 per cent. of silver of their face value. The issue of debased currency to such an excessive amount in comparison with the total circulation has not met with the approval of the conservative bankers of Peru.

It is certain that the establishment of debased currency will not favor either the Government or the Federal Reserve Bank. Gold is again being hoarded by the people in Peru, and the Reserve Bank in order to utilize it has offered to accept the custody of that metal, either in coin or in bullion, against which loans may be obtained at an interest as low as three per cent. per annum.

Another important step taken lately by the Reserve Bank of Peru has been the agreement entered into between the bank and the member banks of Lima with a view to regulating exchange. The Peruvian pound has shown signs of weakness during the latter part of 1922, which has been explained as the result of the increasing financial straits of the Government and of the intention of coining an excessive amount of debased currency.

Transfer of Stock

"For the purpose of seeking protection against the stock falling into the hands of promoters, or others whose connection with the bank would not be beneficial to the bank, many banks," says the Bulletin of the Wisconsin State Banking Department, "have in their by-laws a section reading substantially as follows:

"Section. Whenever a stockholder desires to dispose of his stock, he shall give notice to that effect, in writing to the cashier of the bank. For a period of ten days following the filing of this notice, the bank shall have an option for the purchase of such stock at such figure as may be agreed upon between the stockholder and the directors. In the event the stockholder and the directors are unable to agree upon a price for the stock, then the stockholder shall name a disinterested person and the board of directors shall name another disinterested person. These two shall select a third and the three shall constitute a commission for the purpose of appraising the stock and the findings of this body shall be binding upon the stockholder and the directors."

Heads of Banking Departments

The following is a list of the heads of Banking Departments in the various States.

Alabama—A. E. Jackson, Superintendent of Banking, Montgomery.
Arizona—Doane Merrill, Superintendent of Banks, Phoenix.
Arkansas—Chas. McKee, Commissioner of Banking, Little Rock.
California—John Franklin Johnson, Superintendent of Banks, San Francisco.
Colorado—Grant McFerson, State Bank Commissioner, Denver.
Connecticut—John B. Byrne, Bank Commissioner, Hartford.
Delaware—George L. Medill, State Bank Commissioner, Dover.
Florida—Ernest Amos, Comptroller, Tallahassee.
Georgia—George F. White, Superintendent of Banks, Atlanta.
Idaho—E. W. Porter, Commissioner of the Department of Finance, Boise.
Illinois—Andrew Russell, Auditor of Public Accounts, Springfield.
Indiana—E. H. Wolcott, Bank Commissioner, Indianapolis.
Iowa—Robert L. Leach, Superintendent of Banks, Des Moines.
Kansas—C. J. Peterson, Bank Commissioner, Topeka.
Kentucky—James P. Lewis, Commissioner of Department of Banking and Securities, Frankfort.
Louisiana—J. S. Brock, Examiner of State Banks, 300 Court Building, New Orleans.
Maine—Fred F. Lawrence, Bank Commissioner, Augusta.
Maryland—George W. Page, Bank Commissioner, Baltimore.
Massachusetts—Joseph C. Allen, Commissioner of Banks, Boston.
Michigan—Hugh A. McPherson, Commissioner of Banking, Lansing.
Minnesota—Adolph J. Veigel, Superintendent of Banks, St. Paul.
Mississippi—E. F. Anderson, Chairman of Board of Bank Examiners, Jackson.
Missouri—F. C. Millspaugh, Commissioner of Finance, Jefferson City.
Montana—L. Q. Skelton, Superintendent of Banks, Helena.
Nebraska—J. E. Hart, Secretary of Department of Trade and Commerce, Lincoln.
Nevada—Gilbert C. Ross, State Bank Examiner, Carson City.
New Hampshire—James O. Lyford, Chairman of Board of Bank Commissioners, Concord.
New Jersey—A. D. Johnston Commissioner of Banking and Insurance, Trenton.
New Mexico—L. B. Gregg, State Bank Examiner, Santa Fe.
New York—George V. McLaughlin, Superintendent of Banks, Albany.
North Carolina—Clarence Latham, State Bank Examiner, Raleigh.
North Dakota—Gilbert Semingson, State Examiner, Bismarck.
Ohio—H. E. Scott, Superintendent of Banks, Columbus.
Oklahoma—Joe H. Strain, Bank Commissioner, Oklahoma City.
Oregon—Frank C. Bramwell, Superintendent of Banks, Salem.
Pennsylvania—Peter G. Cameron, Banking Commissioner, Harrisburg.
Rhode Island—George H. Newhall, Bank Commissioner, Providence.
South Carolina—W. W. Bradley, State Bank Examiner, Columbia.
South Dakota—John Hirning, Superintendent of Banks, Pierre.
Tennessee—S. S. McConnell, Superintendent of Banks, Nashville.
Texas—J. L. Chapman, Commissioner of Insurance and Banking, Austin.
Utah—Seth Pixton, State Bank Commissioner, Salt Lake City.
Vermont—George B. Carpenter, Commissioner of Banking, Montpelier.
Virginia—F. B. Richardson, Chief Examiner of Banks, Richmond.
Washington—John P. Duke, Supervisor of Banking, Olympia.
West Virginia—Naaman Jackson, Commissioner of Banking, Charleston.
Wisconsin—Dwight T. Parker, Commissioner of Banking, Madison.
Wyoming—R. J. Hofmann, State Examiner, Cheyenne.

"What Do These People Do?"

By D. RICHARD YOUNG

After a Perusal of Credit Folders and Other Reports the Banker is Still Without a Satisfactory answer to the Question. Twenty-four Classes of Bankers. Essential Differences. Moral Risk. Sources of Profits. Suggestions for Checking Applications for Loans.

WHAT do these people do for a living?" every banker says to himself every day New names are constantly brought to him with applications for loans, or in connection with inquiries from his customers, or in buying commercial paper for investment

This simple question is often very difficult to answer, strange as it may seem. The banker may have secured extensive information regarding a concern, and still have only a vague idea of the real line of business. It is true not only in small banks but in some of the leading banks, whose executives take pride in their up-to-the minute credit departments.

One may consult a "credit folder," read through the trade checkings, examine the financial statements set up on comparative forms, note the correspondence section and the replies to inquiries, and still be left wondering, "What do these people do for a living?"

In gathering credit information on concerns in different trades, such as groceries, jewelry, tobacco, etc., the term brokers is very indefinite and may mean any of a score of different lines. The same is true in other trades as well. The commercial agencies are partly to blame, for often one sees a report on the "X. Y. Z. Metal Co. of Buffalo," with the business given as "manufacturers"—which does not mean much.

Some people think that a broker is anyone who works near Wall Street, New York, or Chestnut Street, Philadelphia, or LaSalle Street, Chicago.

In truth, the term would include stockbrokers, bond-brokers, foreign exchange and foreign money brokers, commercial paper brokers, commodity (cotton, grain, produce) brokers, underwriters and distributors of investment securities, promoters etc. Some brokers are members of exchanges, while others trade in the outside or unlisted markets. They can also be classified as to the clientelle to which they cater, the nationality, etc.

Essential Differences

When a banker investigates the standing of brokerage concerns, there are a number of differences from that of other lines.

Transactions are for large amounts; a small brokerage house will buy $250,000 of bonds at a time, where a small wholesale grocer buys perhaps $2,500 or only 1 per cent. as much.

Transactions are all on a cash basis—that is, securities are delivered only upon payment with certified check. Brokers do not extend credit to customers or to each other, and have no right to ask for credit from a bank, but should at all times be in a position to put up acceptable collateral with satisfactory margin for any loans. A customer often extends credit to a broker, when he pays cash for securities which can not be registered in his own name and delivered for several days, or if he runs an active trading account maintaining a margin in excess of his debit balance, the same as if he would do if borrowing from a bank.

A financial statement of condition is very rarely issued, and it is difficult to obtain even an accurate estimate of the capital employed. And even if a statement were obtained it may become obsolete almost overnight for the condition is constantly changing along with changes in the value of securities. A broker may have an equity of one million dollars one day, and have it entirely wiped out the next.

The length of time established is of questionable value in estimating the strength of a concern. For example, in 1922 there were a number of failures of prominent brokerage houses that had been established 30 and 40 years.

Moral Risk Paramount

The moral risk is considered by most people of prime importance. A bank wants to deal with brokers whom it can trust, who understand their business, and explain to the bank exactly what they want to do with borrowed money. The bank lending money to a sharp or questionable customer must continually watch the account, the collateral, etc. and even then may lose.

The brokers reputation "in the street" is important—whether he is handling a proper class of transactions, whether he buys and sells only when he has orders from others or does it on his own account, whether he is unduly sharp in trades, inclined to slip out of commitments when the market goes against him, "welches" on contracts, whether he delivers and takes up securities promptly or "stalls" for several days on one excuse or another.

Other important factors are his experience and antecedents, his business and family connections, whether the firm has a well balanced make-up of partners, who can handle the trading end, office management, new business, etc.

Bank accommodation to brokers is usually in the form of (1) Loans secured by good marketable stocks and bonds with a margin of 20 per cent. (2) Day loan or over-certification, made in morning, paid back in afternoon, not secured by any collateral but usually covered by a guarantee or agreement to reimburse the bank. (3) Loans against documents covering merchandise in transit or warehouse. (4) Foreign Exchange and Letters of Credit.

In class one are many loans made by banks which do not have the account of the concern in question, but who either directly or through correspondents loan money on the floor of the stock exchange, at the "money post" as it is called, to anyone who wishes to borrow and can put up acceptable collateral. These are spoken of as "call loans" or "street loans" and may be called at any time, or may be repaid by the borrower at any time. In this way, many millions of dollars are loaned daily by banks for their own account and for their banking and commercial clients. Brokerage houses also loan funds between themselves, and also loan stock; the loan of money is secured by stock with the usual margin of 20 per cent. while the loan of stock is secured by *money* equal to the market value of the stock, with no margin required unless the stock goes up considerably in price.

Stock and Bond Brokers

The principle on which a stockbroker or bondbroker works, is to act as broker or agent for his client in finding the best market and executing a purchase or sale of securities.

This may be either for cash, in which the customer pays the broker the full cash price to have the stock purchased, registered in his name and delivered to him, or on margin, in which the customer pays cash for say 20 per cent. of the value of the stock, to have the broker obtain the remaining 80 per cent. from his own capital or borrowing from banks, purchase the stock, and have it in the name of and the possession of the broker to secure the customer's debit balance owing the broker, equal to 80 per cent. of the price of the stock.

This margin requirement is not necessarily 20 per cent. although this is the average where the stock and bonds carried are fair grade, diversified, in a reasonably steady market, and the customer has a reputation of promptly putting up more margin when called for. It will practically never be lower than 20 per cent. (with legitimate brokers) and may be much higher in case the securities are practically all of one issue, or of a highly volatile nature, or at an unusually

high price, or of the very cheap stocks or in a bad bull or bear market, or with a customer located a long distance away and from whom it is difficult to get additional margin when called for.

The risk involved by a broker carrying margin accounts will be present whether his customers are mainly on the "long" or "bull" side of the market, or the "short" or "bear" side. When a customer sells a stock "short," that is, without having it, the broker must borrow the stock from some other broker or from his own box of securities and deliver to the broker to whom the sale is made. Thus, a broker doing business for important "bear" traders may easily be forced into a vulnerable position. Likewise, a large general commission house having a system of branch offices all over the United States and abroad, and holding memberships in many exchanges, trading in stocks, bonds, grain, cotton, etc. with several partners and branch managers, may be so spread out and vulnerable that it might be wrecked by some of its partners or managers taking a position in the market on his own account, or by a bad break in prices.

Source of Profits

Profits in the brokerage business come from the commission received for buying and selling—$15 per hundred shares for stock selling at $10 to $125 a share, or more, or less, if higher or lower than these figures, and $15 per $1,000 bond face value. If the stocks are carried on margin the broker may, and is probably justified in charging the customer a trifle higher rate of interest on the debit balance than the broker pays his bank or whoever else he borrows from.

Dishonest brokers, however, will take advantage of the customer by "gyping" him on the execution of orders, that is, reporting the price a fraction of a point or more away from the actual price, charging him a much higher rate of interest, making bookkeeping "mistakes" in the broker's favor, and the like.

We have spoken principally of brokers who are members of the established stock exchanges throughout the country, for the bulk of transactions, especially active and speculative trading is carried on through the established exchanges. There is also the "unlisted" or "outside" market, in which anyone can trade, where the issues are of smaller, less well-known companies.

Some firms that are members of exchanges also have an unlisted department where they trade in these miscellaneous issues, various investment bonds, notes, certificates, etc. Even smaller than the "unlisted" broker is the "street" broker, an individual usually in business without any partners, who spends the day calling on different brokerage concerns trying to match up miscellaneous buying and selling orders in all classes of securities, especially those very inactive.

The large number of stock exchange houses are often spoken of on the basis of what they specialize in, as a general commission business—handling all classes of transactions, large and small; a wire business—having branch offices through the country connected by leased telegraph and telephone lines; an investment business—purchasing of bonds and stocks for cash, to hold and put away; a speculative business—handling the accounts of large operators, pools etc. Brokers are designated also by the securities in which they specialize such as oils, guaranteed rails, "penny mining stocks" or "two-dollar brokers"—handling business for other brokers. Sometimes an individual broker is a specialist in some stock, all other brokers coming to him with their orders to buy and sell. Some houses are known by the nationality of the partners and the clientelle, as English, Dutch, Hebrew, or German.

The odd-lot business on the exchanges, that is, lots of less than 100 shares of stock, or less than $10,000 par value bonds, has come to make up a heavy volume. A few brokers cater especially to

odd-lot business and advertise their partial payment plan. Some people consider this practically the same as purchasing on margin since most features of the two are identical, except that partial-payment is suggestive of straight buying. The usual plan is to make an initial payment of from 20 to 50 per cent. of the price of the stock, and monthly payments of say $5 a share, or in the case of bonds, $100 down for each $1,000 bond and $50 a month. Many brokers do not care for this business, claiming that it causes excessive trouble in purchase, bookkeeping, watching margins, transferring certificates, etc. of such small lots.

These houses should not be confused with the odd-lot houses which handle this business on the exchanges for other brokers, but who have no dealings with the outside public. The volume of this fractional-lot business on the exchanges in New York and other large cities is estimated at 30 to 40 per cent. of the total trading.

Securities Underwriting

The term "broker" is often applied to financial institutions engaged in the distribution of securities. The large issues, from $1,000,000 to $100,000,000 or more, are usually handled by one or more large investment houses arranging to underwrite or buy the issue, and forming a syndicate of a large number of smaller houses, to which it allows participations of small blocks of bonds. There are only a limited number of large underwriting houses, since this requires a large capital, connections, etc., and the dozen or so leaders are well known.

The eventual distribution of the securities to the ultimate investors is through dealers, who have a force of bond salesmen. Sometimes there is between the underwriter and dealer a middle-man, the wholesaler. And some organizations handle all functions, from underwriting to ultimate placing with the investor.

Promotions might also be mentioned in this classification, as they occupy the extreme position in the scale of investment securities. Sometimes they are of very inferior investment value, sold by inferior houses, and often merely stock selling schemes benefitting the organizers but not the investors. But today there are not any "promoters;" they are all "fiscal agents." Similarly the old-time bond salesman now term themselves "investment bankers;" real estate agents are "realtors," and every chauffeur wants to be an "automotive engineer."

Foreign Exchange Houses

An important factor in the brokerage market is found in the large number of houses specializing in foreign exchange, money and securities.

In foreign exchange the large banks with foreign departments dominate the market, but the scores of medium sized and smaller houses handling foreign drafts, cables, money, steamship tickets, etc., aggregate a large volume. The best way to check up such a house is with the trading departments of others in the same line.

The present basis of foreign exchange dealings does not involve so much credit as formerly, since all transactions of any size are on a T. T. (telegraphic transfer) basis and are outstanding only two or three days, whereas a few years ago they were usually on a draft basis, causing each contract to be outstanding two weeks or more.

Foreign exchange brokers, who do business by personal call and telephone, can be checked up the same way as foreign exchange dealers.

The trading in foreign securities has assumed great proportions since the war. The principal causes were the sudden prominence of New York as a money market for foreign financing, the creation of foreign exchange by the swelled volume of foreign trade, the depreciation of European currencies as an incentive to speculation—by buying them cheap with the hope of holding them until they went back to par, and the general increase of America's interest in foreign securities.

In the case of the European countries, this specluation has been of enormous volume. Americans have purchased the currencies of all the countries, bankers drafts, foreign deposits, government, municipal and industrial bond issues, even stock issues, in an aggregate amount estimated at one billion dollars or more. And most of these securities have continued to decline to about nothing, so

that the money is wasted as far as America is concerned.

Numerous among the schemes to rehabilitate Europe have been the foreign finance companies, planning to carry on trade by barter, to have American materials manufactured abroad, to purchase foreign property and securities, to finance and guarantee exports, etc. Some have planned great systems of branches through this country and the world. In selling stock and bonds they have concentrated on the foreign population in the large cities.

Brokerage in Commodities

Closely allied with stock and bond brokerage is that of commodities—grain, cotton, produce, etc. There is more or less active trading in these by the growers, wholesalers, importers and exporters, as well as professional and amateur traders. Many firms are members of several of these exchanges, and the larger "wire houses" have facilities for securing information from, and trading in practically every important market.

In grain, the chief center is of course, Chicago, on the Board of Trade. The New York Produce Exchange's transactions include export and import dealings, local flour and feed requirements, mineral and vegetable oils and products, provisions, lard, tallow, etc.

The New York Cotton Exchange occupies a somewhat more important place because of America's supplying such a large portion of the world's cotton, and ranks with the New Orleans Cotton Exchange and the Liverpool Cotton Exchange.

The New York Coffee & Sugar Exchange has as members the usual dealers in these commodities as well as the general brokerage commission houses. The unit in sugar trading is the "lot" of 50 tons. It may be either "spot" or "future." In case of futures, the two brokers buying and selling clear the sales through the clearing house, which holds the contracts until their maturity. In the meantime, if the price fluctuates away from the contract price, the broker whom the market goes against is called on by the clearing house for additional margin, which is turned over to the broker on the favorable side of the transaction. Each member of the exchange is required to keep at all times a deposit with the clearing house to protect contracts, which is in addition to the value of the exchange seat.

Other exchanges, with which banks do not have occasion to come into contact so often are those handling fruit and fresh produce, metals, rubber, etc.

There is no need to discuss commercial paper brokers, since there is seldom any occasion for checking them up, and the investors purchase the paper on its own merits. It is desirable, however, for the broker to be of reputable standing, to handle a good grade list of names, and to have sufficient capital for the proper conduct of his business.

The banker investigating the standing of a brokerage concern will usually find it desirable to get bank checkings, trade checkings, and agency reports. The thoroughness of the investigation will depend on the purpose therefor—whether the revision of an active account, prospective new business, or simply an inquiry.

The start may well be made by having someone call at the address of the concern in question, looking over the space occupied, the general appearance, any indications of affiliated concerns in the same offices, etc. The building agent may give information of value about how long the concern has been a tenant, manner of paying rent, banking connections, etc.

The agency reports may give considerable information as well as bank references. Other ways of ascertaining the banking connections will suggest themselves to the investigator, and a direct interview with the subject may be had if thought wise. The information obtainable from banks, as mentioned above, is not nearly so complete or definite as desirable, but should be gathered carefully. Especially note any criticism, any other bank accounts known, and whether the bank believes the firm morally good and recommendable.

Because of the fact that a broker's bank of account does not usually attempt to make thorough investigations of his standing, it is essential to have every report include the opinion of at least one or two houses dealing with the subject.

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They can usually give a fairly good idea of the class of business handled, the methods of meeting contracts, the size of reasonable commitments, etc.

Other houses where the partners of the subject firm have been previously employed often can give information regarding ability, experience, reliability, personal habits, probable means, and past connections. It is especially important to ascertain the reason for leaving, whether relations are pleasant, and whether they trade or would be willing to trade with the new firm.

Our Castle of Gold

By Herbert Hoover

A development bearing on our credit situation is the large accumulation of gold resulting from our post war trade balances. Our gold reserve has increased by a billion dollars since the period of maximum credit expansion of 1920—when it stood at about two billion. At that time we possessed a reserve of about 50 per cent. against credits and currency, apparently a safe enough margin of gold. This additional billion has not been trenched upon and our present reserves against credit and currency is about 77 per cent. Without most of it we would still be well above the safety line. Some of this new importation yields no return to us either in earnings or in security. It would serve us much better if we were getting returns for it by its export to foreign countries. If it aided in making foreign currencies convertible into gold it would also contribute to stabilize foreign exchange and improve foreign commerce. In fact for us it contains an element of insecurity. If a castle of credit and currency were created upon the whole of this gold it would mean the greatest era of inflation and speculation in our history. Such action would increase our price levels to a point which would attract foreign goods to us and would curtail our exports. It would thus quickly produce an adverse trade balance and cause this gold to flow abroad with a rush from under our castle of credit and we should have an unparalleled financial crash.

There seems to be heard a sort of chortle in parts of Europe over the commercial strategy in shipping gold to us. It is assumed that we will incorporate this gold into our credit system and be put out of action by the price rises resulting from it. If we retain our normal commercial intelligence this will not happen. I am convinced that the surplus of gold will eventually flow outward in an orderly way through trade without any necessary increase in price levels and its flow need make no disturbance in our business life.

Analysis of a Simple Bank Statement

Speakers Suggestions by the Committee on Public Education American Bankers Association.

THE banker, as we already have learned, requires statements of his customer's business in order to know his standing. In the same way, the law, because of the semi-public nature of the banking business, requires all banks and trust companies to publish "Statements of Condition," as shown by their books. The Comptroller of the Currency calls for the statements of national banks, and the State Commissioner of Banking for those of state institutions. Banks are required to publish their statements, which are usually called for five or six times a year, in the newspapers of the community in which they do business. In this way the general public is kept informed as to the bank's affairs. A statement of condition, as in the case of the customer's statement, shows both the resources and liabilities of the bank. The resources, as you know, consist of the cash and all other property which the bank owns, the liabilities, of the amounts it owes to depositors and stockholders. Total resources must agree with total liabilities.

A further examination of the bank is made by the Banking Department through its examiners. Bank examiners come to the bank unannounced. They may come at any time, any day of the year. Banks must keep their records in such a way that the bank examiner who has full authority to make complete examination of all records can easily verify them. His official report is sent to the State Banking Department, if it is a state bank, or to the National Banking Department, if it is a national bank.

Many banks also have their records audited monthly by their own auditors. Some states require examination and report to the Banking Department of the bank's affairs by a committee of the board of directors. If the bank is a city bank and belongs to a clearing house association, it will be examined further by clearing house examiners. If a member of the Federal Reserve System, the bank will be examined annually by Federal Reserve bank examiners also. These examinations are made to safeguard, in every possible way, the people's money. Banks are required to conduct their business on the highest standards. If they fail to do so, they will be criticized, and even closed by law.

Many people, who have only a scant knowledge of accounting, feel that they can not understand a bank statement, and, therefore, pay no attention to it. This is a mistake. A little explanation will help anybody to grasp the meaning of bank statements. Every person, who has money on deposit, either in a savings or a checking acount, should know the condition of the bank in which the account is carried, and how its condition compares with that of other banks.

I am going to give you a simple statement of a fair sized national bank (member of the Federal Reserve System). The figures are taken from the books at the close of a day's business.

Resources

(What the bank OWNS)

Cash on Hand and Due from Banks	$212,462.69
Loans and Discounts	982,339.29
U. S Bonds To Secure Circulation	25,000.00
Redemption Fund	1,250.00
Bonds and Other Securities	460,575.08
Banking House	35,000.00
Stock in Federal Reserve Bank	9,000.00
	$1,725,627.06

Liabilities

(What the bank OWES)

Capital Stock	$200,000.00
Surplus Fund	100,000.00
Undivided Profits	48,015.91
Demand and Time Deposits	1,200,654.80
Rediscounts and Money Borrowed	150,000,00
Reserve for Taxes and Interest	1,956.35
Circulation	25,000.00
	$1,725,627.06

Explanation of the Bank's Liabilities

To understand a bank statement, one must keep in mind that, for every dollar paid to or deposited with the bank either by stockholders or customers, a record is made under the heading of liabilities. Earnings of the bank are owed to the stockholders, and must also be carried under liabilities. Though a deposit of money or other item is recorded as a liability, because it is due to the depositor, the cash and checks making up that deposit become an asset, or a resource, of the bank. Thus, when you deposit $500, the liabilities of the bank are increased by that amount, and the money itself is counted among the bank's resources. When the bank invests its money, the property bought likewise becomes a resource. Let us first consider the bank's liabilities.

I. Capital Stock, $200,000

If you recall our first talk, you will remember that the capital stock is the amount of money paid into the bank by its organizers who purchased its stock, and are, therefore, the owners or stockholders. The item is carried as a liability, because the bank is indebted to the stockholders for the money they have paid in. The capital stock cannot be withdrawn by the stockholders as a deposit can, but stays in the business as a guaranty fund for the depositors' protection. In the case of a bank's inability to pay its obligations, this fund is used. In addition, the stockholders of the bank may be called upon for a like amount, for stockholders in national banks, and, in many states, stockholders in state banks, are held by law under a double liability.

II. Surplus Fund, $100,000

A bank sets aside a certain proportion of its earnings in a fund called the surplus. Should any losses occur they are taken out of this fund first, so that the capital of the bank will not be reduced. Then, too, the surplus, is an additional safeguard and protection for those who deposit their money in the bank. National banks are required to build up a surplus to at least twenty per cent. of the capital. Many banks accumulate a much larger fund. The surplus belongs to the stockholders, but, like capital, it remains with the bank.

III. Undivided Profits, $48,015,91

Undivided profits also represent earnings of the bank which have not been distributed in the form of dividends or added to the surplus fund, but which, like the capital and surplus, are due to stockholders. The best managed banks do not pay out all of their earnings in dividends. Their aim is to keep the undivided profits account growing, so that substantial amounts, when earned, may be transferred to the surplus fund. The latter is changed only at stated intervals, while the amount of undivided profits is changing daily as the earnings of the bank change.

IV. Demand and Time Deposits

Demand and time deposits make up the amount which the bank owes to the persons, firms, and corporations that are its depositors. The bulk of deposits of a commercial bank are demand deposits, which may be checked out any time, but often a considerable amount represents savings deposits, which when left with the bank for stated periods, draw interest. Accurate records are kept of all deposits and of all withdrawals.

V. Rediscounts and Money Borrowed

When the demands of borrowing customers exceed the amount of loanable funds a bank has on hand, the bank may, if a member of the Federal Reserve System, borrow money from the Federal Reserve bank of its district, by pledging its securities, such as Liberty bonds, or by rediscounting first class commercial paper, already discounted for its customers. Such borrowings, of course, are the debts of the bank, and are, therefore, shown as liabilities.

VI. Reserve for Taxes and Interest

As a bank's earnings accumulate, there are certain rather large items, such as taxes and interest, payable by the bank each year, which it would be a mistake to carry under the heading of undivided profits. Many banks set aside monthly the proportionate amounts required to pay such items. In this way, the bank shows care and conservatism with regard to its published figures. As taxes and interest are paid, deductions are made from the amount held in reserve for the purpose.

VII. Circulation, $25,000

State banks do not issue bank notes, but national banks always have had the privilege of issuing their own bank notes under conditions prescribed by law. These notes circulate as money, and are known as national bank notes. The national bank first buys United States bonds of a face value equal to the amount of the circulation it desires to issue, but this amount may not exceed its capital. The bonds are placed in the keeping of the Treasurer of the United States in order to insure redemption, that is, repayment of the circulat-

ing notes. These notes are the bank's promises to pay the sum of money indicated on each note. On this account, the amount outstanding must be shown as a liability.

Explanation of the Bank's Resources

As stated, the items under the heading, Resources, include the various kinds of property owned by the bank, and all debts due to it.

I. Cash on Hand and Due from Banks

Cash on hand and due from banks represents the actual cash held in the vaults of the bank, together with the money which the bank has on deposit with the Federal Reserve bank and with correspondent banks. It may also include checks deposited for collection which are drawn on other banks. This amount includes the required legal reserve explained in a previous talk. In the case of the banks which are members of the Federal Reserve System the legal reserve is kept in the Federal Reserve bank of its district. Money is deposited with correspondent banks usually for the purpose of paying drafts drawn on them.

II. Loans and Discounts

Loans made to responsible persons, firms, and corporations, against promissory notes, either secured or unsecured, are entered under the heading, Loans and Discounts. All loans and discounts are passed upon by officers of the bank, whose chief concern in making a loan is to see that it is well secured, either by the personal credit of the borrower, or by adequate collateral. Interest from loans is the principal source of the bank's earnings.

III. U. S. Bonds To Secure Circulation

As has been explained, these bonds are held by national banks to *secure* circulating notes. A national bank is no longer required to buy and hold United States bonds unless it wishes to issue circulating notes. As there is a small profit arising from it, most national banks take out some circulation. The bonds are, of course, owned by the bank, but, under the law, must be deposited with the Treasurer of the United States, as long as any circulating notes are outstanding.

IV. Redemption Fund

When national bank notes become dirty and unfit for circulation, they are sent to the United States Treasury for redemption, and the amount of the notes is charged to the redemption fund. The bank pays the Treasury, and receives in return new crisp money for the amount redeemed. The law requires each national bank to keep in the United States Treasury a redemption fund of at least 5 per cent. of its outstanding circulation.

V. Bonds and Other Securities

Most banks invest part of their funds in highgrade bonds of various classes, for the reason that such bonds always have a market value, and can, therefore, be sold promptly to meet unexpected demands made upon the bank by its customers. Interest from these investment securities is another important source of the bank's earnings.

VI. Banking House

This item represents the cost of the ground, building, furniture, and so forth used by the bank in conducting its business. Generally speaking, banks find it advisable to own their bank buildings, which are carried on the books at cost, or at a low valuation.

VII. Stock in Federal Reserve Bank

All banks that join the Federal Reserve System must own stock in the Federal Reserve bank located in their district to the amount of 6 per cent. of their capital and surplus. Only one-half, or 3 per cent. of member banks' subscriptions, has been called up to this time. It will be remembered that the capital stock of the Federal Reserve banks is owned entirely by these member banks.